

MAR 15 1945

# CREDIT

and Financial Management

March 1945

## Features in This Issue

*Factors That Help You Decide  
Yes or No on a Credit Risk*

*Will the Banks be Ready to  
Meet Postwar Financing?*

*A Study of Previous Wars as  
an Aid to Credit Managers*

*Program for Terminations  
in Average Size Plants*

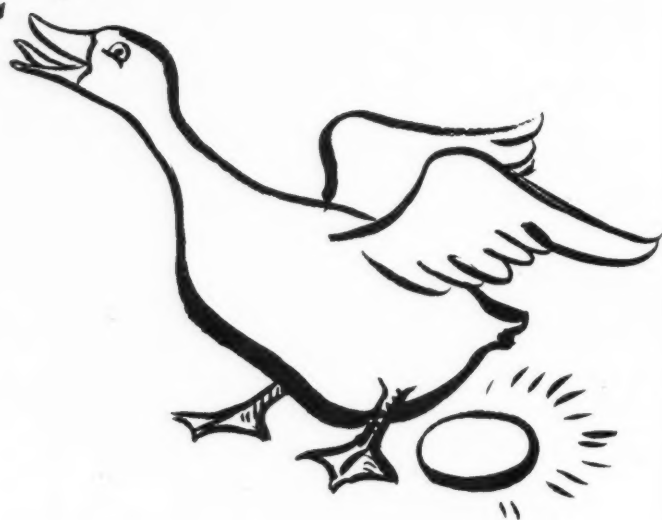
*Is Your Selling  
Contract Legal?*

*Saying the Right Thing at the Right  
Time Helps Smooth Credit Bumps*

*Is a Business Counsellor  
to Ex-Service Men Needed?*

# Your Receivables

MISTER - SPARE THAT GOOSE!



**I**T'S your own goose! And it lays golden eggs for you. Let's see: —

Most of us, naturally, prefer to do business with friends. Other things being equal, you sell to those who have confidence *in you*. Your organization's continuing success depends in no small measure on the business friends it has and holds.

At times, it isn't easy to keep these friends. It isn't easy, for instance, to collect doubtful accounts, and at the same time hold your debtors' good-will . . . and win their future business when times again grow better for them.

This is why you should let *credit men* handle all your collections. They are expert in maintaining good-will . . . the goose that lays golden eggs for you!

## **We Don't Ask for the "Breaks," Either!**

*The Collection Bureaus of the N. A. C. M. have acquired an enviable reputation for collecting troublesome accounts.*

*It pays to take advantage of a reputation like this!*



*Guarding the  
Nation's Profits*

COLLECTION and ADJUSTMENT BUREAUS  
of the  
NATIONAL ASSOCIATION of CREDIT MEN

# CREDIT

## *and Financial Management*

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**MARCH 1945**

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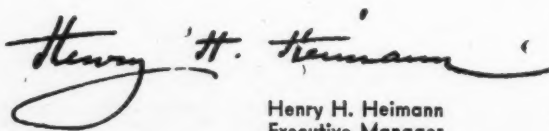
## *Importance of our Schools*

**C** Postwar enrollment in our educational institutions will probably reach a new peak. Extension of our educational facilities will be further accelerated in the years ahead. It is doubtful whether there is any one thing in this nation or in the world that is more important to the future of the world than a sound educational program. For many years educational programs largely have been left to educators; however, these educators have always been anxious to receive recommendations, advice or criticism on the soundness of their work, for they realize how the whole world of tomorrow is fashioned largely through the education of the youth of today. Far too few people have had a full realization of this fact.

If the educational program in the enemy countries had been of a different type, it is doubtful that we would have been faced with the struggle in which we are now engaged.

I believe it to be the duty of every citizen to take on an added responsibility of citizenship and to become interested in our educational programs, to aid and assist in their development and to see to it that those who are charged with the responsibility are not the forgotten men and women of the nation when we come to thinking of their rewards and the standard of living to which they are entitled. We must lift our vision over past standards.

In the last analysis, our schools, colleges and universities, together with the churches or creeds of all denominations, can do more to build a sound citizenship than any other group.



Henry H. Heimann  
Executive Manager




# WHAT INSURANCE HAS DONE TOWARD VICTORY

**T**ODAY, every business and industry must be judged by a new standard—its contribution, direct or indirect, toward the winning of the war.

The men and resources of the fire insurance industry have been utilized to the full in the mobilization of our nation's might. A large proportion of the male employees are serving with the armed forces. Many others have been, and are, devoting a large part of their time and energies to unpaid civilian war activities. Further, a large proportion of the income of the industry is converted directly into War Bonds.

In all these ways, fire insurance has aided the general war effort of the United States. Added to this is the immeasurable and vastly important overall support rendered by the whole "industry which protects other industries" in its never-ceasing war on man's ancient, indefatigable enemy—fire.

Through the vigilance, skill and protective work of inspection and engineering facilities, the fire insurance industry has not only helped prevent many disastrous fires—it has presented the country with the equivalent of hard-won production victories. Toward this end, we intensified our efforts in 1944. Yet, it is unfortunately true that in spite of all efforts, there was an increase in the number of fires in 1944, the result of the accelerated wartime production tempo. Consequently we plan to redouble our preventive activities in the critical year ahead . . . a contribution to the America our men are fighting for.

  
President

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FIRE • AUTOMOBILE • MARINE

THE HOME, THROUGH ITS AGENTS AND BROKERS, IS AMERICA'S LEADING INSURANCE PROTECTOR OF AMERICAN HOMES AND THE HOMES OF AMERICAN INDUSTRY

## STATEMENT

December 31, 1944

### ADMITTED ASSETS

Cash in Office, Banks and Trust Companies . . . . .	\$ 21,220,339.31
United States Government Bonds . . . . .	34,764,718.31
All Other Bonds and Stocks . . . . .	76,426,404.54
First Mortgage Loans . . . . .	368,005.60
Real Estate . . . . .	3,772,527.58
Agents' Balances, less than 90 days due . . . . .	8,637,873.31

### Reinsurance

Recoverable on Paid Losses . . . . .	1,697,960.88
Other Admitted Assets . . . . .	157,610.37

Total Admitted Assets . . . \$147,045,439.90

### LIABILITIES

Reserve for Unearned Premiums . . . . .	\$ 56,900,611.00
Reserve for Losses . . . . .	17,391,935.00
Reserve for Taxes . . . . .	2,870,000.00
Reserve for Miscellaneous Accounts . . . . .	913,950.86
Funds Held Under Reinsurance Treaties . . . . .	58,461.60

Total Liabilities Except Capital \$ 78,134,958.46

Capital . . . . . 15,000,000.00

Surplus . . . . . 53,910,481.44

Surplus as Regards Policyholders 68,910,481.44

Total . . . . . \$147,045,439.90

Note: Bonds carried at \$3,645,555.62 amortized value and cash \$50,000.00 in the above statement are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners. On the basis of actual December 31st market values, total Admitted Assets would be increased to \$148,631,517.64 and Surplus to Policyholders would be increased to \$70,496,559.18. Surplus adjusted to reflect Canadian Assets and Liabilities on United States Dollar basis.

# Factors in the Credit Decision

## Basic Considerations in the "Yes" or "No" Answers.

By WILLIAM J. SHULTZ

Assistant Professor of Business Administration  
College of the City of New York

**C**EN The credit man's function has sometimes been described as that of saying "no" to the sales department.

This generalization is utterly misleading. "No" may sometimes save a loss, but it never earns a profit.

The credit department is, or should be, a profit-producing department. It acts as such primarily when it says "yes" to the sales department. Its ability to say "yes" at the proper time depends upon its competent performance of the following four positive functions:

1. Determination of the marginal class of risks to which the firm should sell. For most firms under ordinary circumstances the marginal class of risks is that group of customers whose bad debt losses, over a reasonable period of time, may be expected to fall somewhat short of the profit (gross sales minus costs of production and delivery) derived from the purchases of those in the group who eventually make full payment, so that some net profit results from selling to the group. Special circumstances, discussed later, may temporarily warrant setting the order-checking level above or below this marginal risk class.

2. Determination, as accurately as is possible upon the basis of available information, the degree of risk attaching to each account, so that it may be classified as checkable or submarginal.

3. To persuade submarginal customers to buy upon special terms or under special arrangements which will eliminate or reduce the excessive risk that makes them unacceptable under the firm's regular terms of sale.

4. To develop and apply such collection procedures as will reduce the risk of nonpayment involved in all sales, even those to highest-risk customers.

### The Principle of Risk Categories

A credit man should view his firm's customers to some extent as an insurance actuary views his company's policy holders.

In the case of life insurance, the actuaries have established, on the basis of mortality tables, that a certain percentage of men of a given age will die in the current year, that the percentage will be still larger for men a year older, larger yet for men two years older, and so on. The chance that any particular individual will die in the current year can not be determined. But conclusions as to the group rest on the firm foundation of probability mathematics. The insurance company can

establish a premium rate for the group that will yield a predictable net profit on insurance taken out by the group, despite the unpredictability of the individual members of the group. Similar principles are applied in accident insurance, fire insurance, marine insurance, and other insurance fields. An insurance actuary must establish definite risk categories for all policy holders covered by his company, since varying premium rates must be calculated for the different classes.

### "Shall I say 'Yes' or 'No?'"

A credit man has only one decision to make—to check orders from a particular customer or not to check. Therefore he does not have to work out carefully defined categories for all actual and would-be customers of his firm, ranging from almost-perfect risks to almost-certain losses. But somewhere he must draw a line, or establish a marginal category, between those accounts that he checks for regular terms, and those he refuses to check.

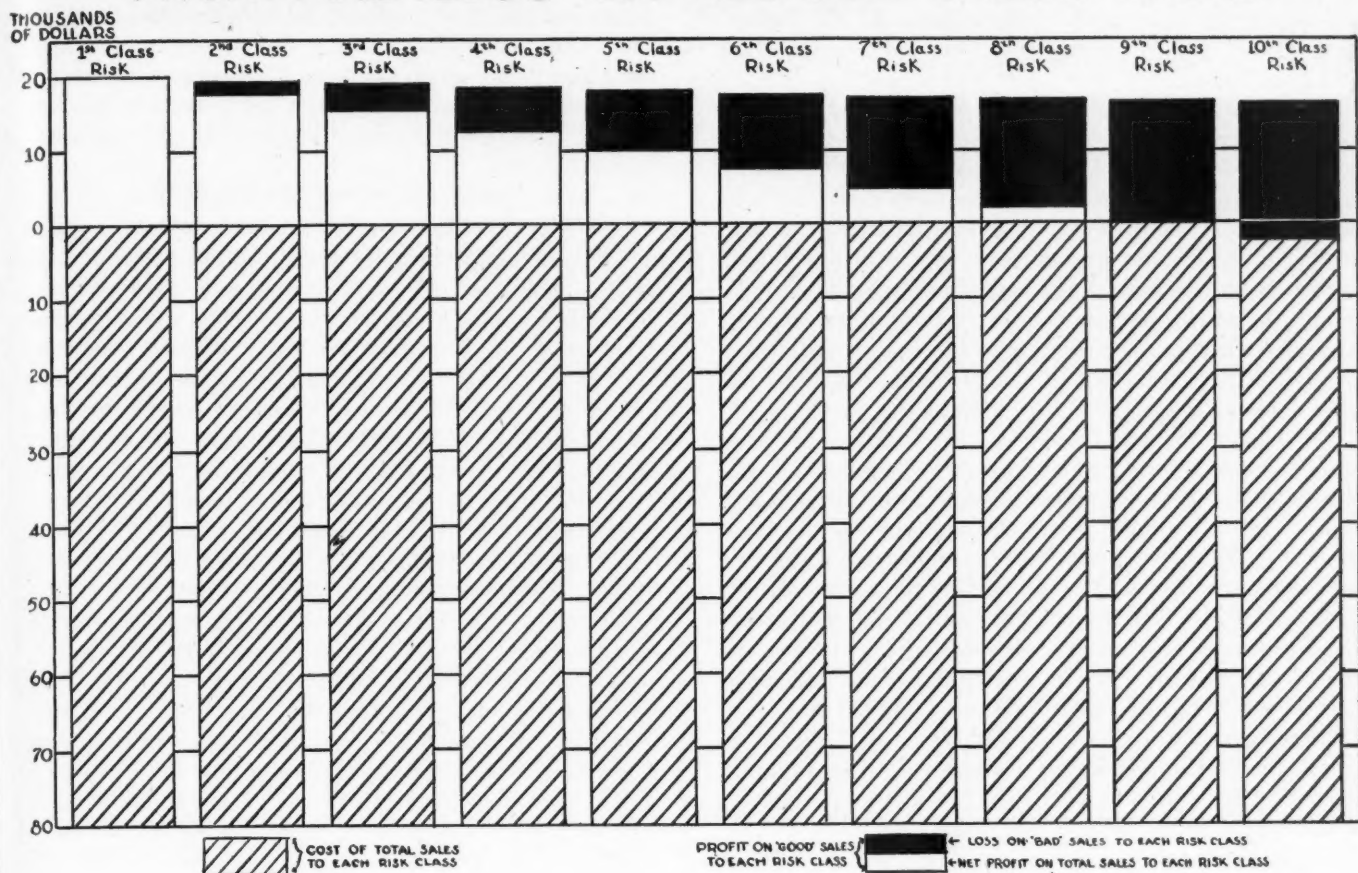
This line or margin can not be a hard and fast one for, as we shall see, changing circumstances of his company may make it advisable to raise it or lower it. Whether he does so consciously or not, a credit man must in one way or another classify a certain range of his accounts in risk categories—a category from which he must expect a 5% bad debt loss, a category from which he must expect a 7½% bad debt loss, a category from which he must expect a 10% bad debt loss, and so forth.

Like the insurance actuary, he will not be able to isolate any particular account which would certainly be responsible for all or part of the bad debt loss in a particular category during the coming year—and if he could do so, such account would not belong in the particular category, but in the very lowest category of practically-certain loss. For each individual account in a risk category there is only a relative *probability* of loss; the expectation of some definite percentage of nonpayment applies only to the category as a whole.

### Standards of Risk Classifications

Mercantile agency ratings provide a credit man with broad standards of credit risk classification. But for most credit offices these rating classifications are too broad, too loose. On the basis of his past experience, a credit man should establish a mental image of the

# PROFIT AND LOSS ON RELATIVE CREDIT RISKS



class of accounts on which he must expect to take a 2½% loss, another of the class of accounts on which he must expect to take a 5% loss, and so on. He will have no exact mathematical indicia to determine each class of accounts, as does the insurance actuary. There will be no formula that a credit manager can put on paper as a standard to be used by his assistants or clerks. Instead, the determinants of each class will be a complex combination of all the different factors that enter into a credit risk. But the impossibility of precise formularization of standards should not be any bar to such classification.

A credit man with a long-established firm could readily formulate such a classification for himself by checking the pre-delinquency information his office had on accounts on which it suffered bad debt losses. A young credit man with a new organization can lay the foundation for such a classification by making an *a priori* classification of his current accounts, checking it against his subsequent experience with them, and then making such adjustments in his classification as is indicated by his bad debt experience.

## Profit Margin Risk Categories

It is important that the classification of accounts into risk categories should be in terms of the percentage of expected bad debts to gross sales for each group. As stated above, most firms, under ordinary circumstances, should sell to customers in the lowest risk category for which profit on the sales to the class exceeds the bad

debt losses for the class. Unless the percentage of expected bad debt loss for each class—or at least for those classes around the margin—is known, there is no way of determining whether the credit department's policy is too lenient or too strict.

The illustration shown above is a graphic demonstration of the principle of deriving maximum profit by selling to the lowest risk category for which profit on sales to the class exceed the bad debt losses for the class. Assume that a firm receives \$1,000,000 in orders on which its gross profit over direct operating and delivery costs, if all payments were made, would be 20 per cent.

## Ten Risk Categories

Its customers fall into ten risk categories. For the first category, from which \$100,000 orders are received, the probability of bad debt loss is practically nil, and \$20,000 gross profit may be expected. For the second category, from which another \$100,000 of orders are received, \$2,500 of nonpayments must be expected—a bad debt loss anticipation of 2½ per cent; not only will \$500 of gross profit expected on these "bad" orders be lost, but the \$2,000 operating and delivery costs on these "bad" orders is a loss which must be offset against the \$19,500 profit on the "good" orders in this category, so that the net profit on \$100,000 sales to this category will be only \$17,500. The third category has a \$5,000 bad debt loss—5 per cent—expectation, and net profit on the \$100,000 sales to this category will

be only \$15,000. For each successive category, the expectation of nonpayment for the class is \$2,500 higher, and the net profit on the \$100,000 of sales to the class is \$2,500 lower.

As indicated in the illustration presented, some profit is to be derived from selling to the eighth category, for which the anticipated bad debt loss is \$17,500, or 17½ per cent. If sales were made to the ninth class, the firm would just break even on its direct operating and delivery expenses, though indirectly some profits might result from sales to this class since overhead costs would be spread over a greater volume of production and sales. But sales to the tenth category of customers, for which 22½ per cent of nonpayment is anticipated, would result in a \$2,500 direct operating loss.

Obviously, the credit man of this hypothetical firm should check orders for all categories of accounts down through the eighth category, possibly even through the ninth. If he checked orders through the eighth category, \$70,000 of bad debt losses would have to be expected on the \$800,000 of sales, but the maximum net profit of \$90,000 would be achieved. If the credit man were overconservative, and refused to check orders to the eighth category of customers, the firm's bad debt loss would be reduced to \$52,500 on \$700,000 sales, but total net profit would be only \$87,500.

The implication from this analysis is that a credit man should approve orders to customers of a class which are certain to produce some bad debt losses, though he can not at the time determine which particular customers in the class will be responsible for the losses. A high bad debt record is not necessarily the mark of poor credit judgment. It may very well be, in a firm that sells on a wide profit margin, an indication of excellent credit judgment that is maximizing the net profit of the firm. Contrariwise, the combination of complete absence of bad debt loss with a high record of order refusals could be sound ground for prompt firing of the credit manager who reported such a record; he might stand self-convicted of strangling the firm's selling effort and slashing its profits.

#### **Seller Factors in the Credit Decision**

As indicated above, the fundamental elements of a credit decision are (1) determination of what risk categories are acceptable to the seller, and (2) determination of whether the customer is within one of the acceptable categories. What risk categories are acceptable to the seller, depends not upon the circumstances of the customer, but upon the circumstances of the selling firm—the profit margin on which it operates, the market for its goods in relation to its production capacity, its competitive position, any need for special promotional outlets for its goods, its working capital position, its collection technique, possibilities of moving dead stock, and similar considerations.

As a normal rule, the wider a firm's profit margin on its sales, the poorer the class of credits risks it can afford to sell to. Taking the hypothetical case presented in the illustration, it is the seller's 20 per cent margin of gross profits over direct operating and distribution costs that makes it profitable to sell to eighth class risks. If its profit margin were only 10 per cent, it would be limited to selling to fourth class risks, or at the most

to fifth class risks. If it sold to any class of poorer risks, it would lose more on the nonpayments resulting from that class of sales than it would gain as profit on the accounts on which it collected. A seller whose profit margin was 30 per cent could sell profitably to even lower classes of risks than are shown in the illustration.

#### **Market and Production Capacity**

The relation between the market for a seller's goods and its production capacity may influence determination of its acceptable credit risk level in two ways.

A seller with a market demand for its goods greater than its production capacity can exercise selectivity among its customers. Among the factors which may influence its choice among would-be buyers is their credit standing. It may choose to sell its limited output of goods only to the highest categories of credit risks, even though it would make a net profit on sales to lower categories if it had goods to sell to them. Thus, if the hypothetical firm in the illustration had a capacity of only \$600,000 worth of goods, it would be ridiculous for it to exclude some customers in the first six risk categories, in order to sell to customers in the seventh and eighth classes. Thereby it would involve itself in a higher proportion of losses, because of nonpayments by seventh and eighth class customers, than it need. Under these circumstances, the credit man of this firm would approve orders only through the sixth risk category of customers.

Such credit restriction based on limited output occurs in practice under two circumstances. The first is the case of sellers of quality products that have deliberately chosen to limit their production to a given capacity, because they do not want to risk the quality reputation of their products by seeking mass markets, or because they do not wish to incur the risks incumbent upon expansion. Some of these quality-product sellers feel that to maintain their product reputation they should market only through quality outlets, and that one distinguishing element of a quality outlet is a high credit standing. A number of well-known firms in the men's wear line could be pointed to as illustrations of such credit practice. The second circumstance is where extraneous factors limit the output of particular sellers or large classes of sellers. The shortages that developed in so many civilian production lines from 1942 on forced scores of thousands of manufacturers and wholesalers to restrict their sales to levels far below what their markets demanded; one procedure by which most of them accomplished this restriction was by lifting the line or margin of credit acceptability which they had previously applied in their credit decisions.

#### **Production Capacity a Factor**

In certain cases production capacity may influence a seller's level of credit acceptability in just the opposite way—it may cause the margin of acceptable credit standing to be lowered below the level established by its profit margin. This somewhat anomalous situation is found in manufacturing lines that have very high overhead costs. Such firms must maintain production at capacity, or at a certain high percentage of capacity, if they are to show profit. When business conditions or a competitive situation cause their sales

to fall below the figure necessary to maintain their production at capacity or near-capacity, one method whereby they can bring their sales up to the required figure is to lower their credit standards—to deliberately sell to classes of customers below the credit risk standard established by their profit margin on direct operating costs. Of course they will incur a net loss, calculated against direct operating and distributing costs, on these sales. But their unit overhead will be reduced because total overhead will be spread over the greater production and sale, and this saving on overhead will offset the credit loss. The net result will be increased final net profit, or decreased final net loss.

#### Question of Competition

Sellers operating in a bitterly competitive market will commonly sell to low-grade credit risks that they would never consider if they had an exclusive market. Some writers on credit have decried this tendency, holding that the standard of what should be a good or bad credit risk for a firm should be absolute without regard to competitive conditions. There is some justice to this claim, for in these competitive fields we often see efficient sellers forced into insolvency by the failure of customers who were obviously bad credit risks—so bad that, on the basis of the profit margin principle discussed above, sales to them should never have been approved.

But often the sellers can make a sound case for such practice. If an industry as a whole suffers from excess capacity and is one where overhead costs are high, every seller in the line is driven by the second application of the productive capacity principle noted above to seek to expand his sales and production even though it means taking in a class of customers whose nonpayments will result in a net loss on direct operating costs for the margin of production they represent. The only alternative is to forego the sales represented by such class of customers, which means certain loss because of accumulating overhead costs. When selling to these customers, at least there is the chance that the expected bad debt loss may be held down by shrewd and effective collection procedures so that some net profit may be wrung from the sales.

#### Limitation of Credit Department Work

One reason why many manufacturers prefer to sell through jobbers rather than directly to thousands of retailers or industrial consumers is that the former practice saves them from credit difficulties as well as merchandising difficulties. Instead of having to check thousands of retailer and manufacturer accounts, many of them of marginal character, the credit department need concern itself with the accounts of only a score or more of wholesalers, who as a class generally are of a higher credit standing than the mass of retailers and small manufacturers. Some large manufacturers of quality and well-known brand products, however, have developed a compromise procedure which enables them to sell directly to a limited number of retail and manufacturing accounts without unduly increasing their credit function. They make direct sales at a substantial

<sup>1</sup> M. Hill, "19-Day Turnover," *Credit & Financial Management*, February 1941, p. 14.

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## Credit Limits

**Another article by Prof. Shultz will be presented in the April issue. He contends that Credit Limits should be used only as Stop, Look and Listen signs for the Credit Executive.**

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cash discount—smaller, however, than the trade discount which they give to jobbers, so that the manufacturer and the discounting customer in effect split the jobber's "spread" between them—to retailers and manufacturers of only the highest credit standing; in some cases, indeed, their direct sales are limited to discounting customers. All other customers with lower credit standings must buy through the jobbers who offer less generous cash discounts and may charge higher net prices.

The credit department of such a manufacturing company obviously does not set an approval margin at the lowest risk category which would yield a net profit over nonpayment losses. It sets an arbitrarily high approval level, and deliberately foregoes the profit that could be made on direct sales to categories below this level. This foregone profit is recovered, in major part, through the sales to jobbers who in turn resell to the outlets with lower credit ratings refused by the manufacturer. The Berkshire Knitting Mills is an example of a company that pursues this credit policy.<sup>1</sup> It is the common practice of the rayon industry.

#### Maintenance of Special Promotional Outlets

Certain manufacturers of quality men's clothing feel that a lasting market for their product is developed by promotional efforts directed at college men. The young man who becomes used to the style and quality of a particular brand-line of suits or shirts or other article or wearing apparel during his impressionable college years commonly remains a customer of that brand for life. Therefore, these manufacturers make every effort to find and keep outlets for their product in as many college towns as possible. Sometimes the only clothing store in a college town that can carry their line is submarginal by their credit risk standard. In such case, the credit consideration is outweighed by the promotional consideration; orders to such an outlet will be approved—though with a self-notation by the credit manager to keep a particularly sharp eye on payments by the account. Nonpayment losses on such sales of course run very high—high enough, possibly, to wipe out all profit on this class of sales and leave a net loss.

(Continued on page 20)

# Financing Industry in the Postwar Period

## *A City Banker Reviews Facilities for Meeting Needs*

By **LAURENCE L. BELL**

Vice-President, Union National Bank of Pittsburgh

**C** When will the Postwar Period arrive? None of us knows at this time. Even though the current news concerning our armed forces is at times discouraging, I am sure that not one of us doubts the eventual victory of the forces of justice and democracy. The triumph of our fighting men and women on VE-Day—I don't think we should look beyond that date in this discussion—will also mark a victory for the principles of free enterprise and individual initiative. Regardless of what may have been said against the American free enterprise system in the past, even its bitterest opponents will admit that without our privately owned corporations, banks and other commercial and agricultural organizations, abysmal defeat on the fields of battle would have been our fate rather than the glorious success which is going to be ours.

The war will not end with the firing of the last shot. In fact for all of us here, it will only sound the beginning of another struggle. We will be faced with the challenge of demonstrating to the world that our American system can work equally well in days of reconstruction as it did in days of destruction and conflict.

A great deal of thought has been given by the heads of business, both large and small, as to the course we are going to follow when our millions of young men and women return to their places in both the business and social world which they unselfishly surrendered that we might live in comparative comfort. They will deserve and will receive every consideration and assistance. So I say again, we have done well today, but we must do better tomorrow.

### **15,000 Banks Are Prepared**

Most of our 15,000 banks in the United States have been alert to this impending situation and have been making surveys of their customers' needs in the days to come. We, like many of you, have a real problem of reconversion. Since Pearl Harbor, we have loaned a tremendous amount of money to one customer—the Government of the United States. You, too, as individuals, and business concerns have also performed a meritorious job in establishing yourselves as assistants and creditors of our Government. It is also true that we have made thousands of loans involving many billions of dollars to those engaged in the production, manufacture and transportation of war material. A

fair proportion of these loans have been guaranteed by the Government, itself. I am sure that I speak for the entire banking fraternity that with the coming of peace, we want to be relieved of this form of insurance. In fact, we would prefer not to have any form of subsidy in any business. Notwithstanding our contribution to the prosecution of the war, the banks of the country find that our loans and discounts portfolios aggregate today a lesser amount than the figures shown in June, 1941.

So we do have a problem of reconversion, mostly in our thinking. When the postwar period arrives you will find the banks of our country to be in the soundest position in their history. Deposit liability will be offset in a very substantial degree by cash and United States Government Securities the soundness of which no one will dispute.

### **Banks Have a Job to Do**

Banks were originally chartered so that they might make loans to assist local industries, to build homes, schools, aid transportation of all kinds and for countless other purposes. The success of these ideas are self-evident as the United States of America, while the youngest of all of the nations of the world, is at the same time the most prosperous and the most self-supporting. A real banker wants to continue to carry on the program for which he and his institution were created. The yardstick by which the desirability of bank loans are presently measured will have to be made more elastic. I do not mean that loans will be granted indiscriminately, but more consideration will be given to character and capacity rather than collateral. Conversely, however, the banker will still continue to be the custodian of his depositors' funds, so that he cannot become too prodigal in his thinking. There is a tremendous difference between riskless banking and reckless banking.

The question then arises—to whom are we going to lend a portion of this huge reservoir of credit? From available information it would appear that there is little likelihood of so-called "Big Business," except in isolated cases, making any substantial demands upon their banks for other than short term, seasonal credit.

A recent report of the Securities and Exchange Commission shows that from the beginning of 1939 to the end of 1943, United States corporations, excluding banks and insurance companies, increased their net

working capital, after making allowance for taxes and renegotiation liability, roughly from twenty-five billion to forty-two billion dollars. The report shows that during the same period, these corporations paid more than one billion dollars in refundable taxes. Therefore, Big Business has been accumulating a tremendous amount of working assets which will be available in the post-war period.

It is evident, therefore, that the demand for bank credit is likely to arise from the owners of small businesses which comprise about 91 per cent of our enterprises and which are generally referred to as those employing less than 100 persons. Even this group is not penniless, as a report of the Department of Commerce for 1943 shows that there was an increase in demand deposits of \$4,500,000,000 owned by small businesses, partnerships and unincorporated businesses.

### **Tremendous Demand for Funds**

You may surmise by my quoting the foregoing figures that I have concluded that there is no place for our banking institutions in the postwar period. Such is not the case. I can visualize, but cannot convert into dollars, the tremendous demand for funds necessary to build millions of new homes, to manufacture, warehouse, transport and sell the many home conveniences which have been denied us the past four years. Billions of dollars will be needed for the financing of motor cars, planes and all their accessories. Many manufacturing plants will have to be rehabilitated and machinery repaired and replaced, and in this transition period the banks are determined to have a part.

It is not too early for you to be thinking and planning for the needs of your business in the days to come. In helping you to look ahead, your banker welcomes evidence that you have thought out your over-all postwar program in financial terms, and that you are prepared to adjust your program in accordance with later developments. For your own benefit, and the guidance of your banker, your postwar plans should be translated into dollar-and-cent terms, commonly called a budget. Your best estimates of sales, expenses, capital expenditures, and a forecast of cash for a definite future period, are the essentials of such a budget.

While most businessmen recognize its value, some have delayed in putting together a postwar budget because of certain variables which cannot be evaluated with normal accuracy. Your banker appreciates this problem. When he suggests that a budget be prepared, he knows that some errors will necessarily occur. He is merely proposing that you express in figures a definite idea of where you are going and how you plan to get there.

Your banker understands further that a budget is a device for adjusting policies and not for determining them. You may establish several alternative budgets based on different estimates of future conditions. A budget is not an inflexible goal. You should expect to make certain necessary adjustments as your program unfolds. Like your cost records, a continuing budget is an integral part of all plans for expansion—including changes in these plans.

A procedure of alternative budgets will enable you

to make definite, yet flexible, plans with these advantages:

1. They specify tentative goals in figures, which you can relate to the financial requirements of your business;
2. They build up a greater awareness of the importance of cost and help to perfect cost analysis—all of which benefits your management and your entire organization;
3. They emphasize possible changes in operating conditions and policies, and make for balanced relationships throughout your business.

### **Importance of Budgets**

Talk over with your banker a balanced relationship between the capital funds in your business and the bank credit you require, bearing in mind that your business must have a sufficient margin of liquid assets above current debts to absorb losses resulting from unexpected reverses.

Since a bank is not legally permitted to furnish permanent capital or to take a stockholder's risk, the margin of your current assets above current liabilities due within one year, must be sufficient to support the credit your bank extends to you. "Current assets" refers to cash, current trade receivables, inventories and government bonds. "Current liabilities" covers all obligations, including tax accruals, due within one year.

An adequate margin of working capital (current assets less current liabilities) varies greatly in different lines of business, and for other reasons. The proper margin for your business can only be determined by analysis of your particular situation.

It is quite likely that after you and your banker have come to an understanding with each other a credit line of sufficient amount may be established for your company which will be sufficiently flexible to serve your needs over a twelve-month period. You will doubtless be required to constantly supply him with monthly figures reflecting your current financial condition and operating achievements.

### **Term Loans Are More Popular**

Your problem may be one of plant expansion that will necessitate a sizeable expenditure for additional property, new machinery or better equipment. If you can convince a lending institution that such expenditures are necessary for the continuation of your business and their use can be converted into profits, it may be that a "Term Loan" can be arranged. In the pre-war banking era, this type of loan was not looked upon with favor by bankers or examining authorities. The only paper usually acceptable matured in three to six months and payment was expected when due. By force of circumstances, some of this paper turned out to be term loans, and notwithstanding the classification of "slow" and sometimes "Doubtful" by the examiners, it must be said to the eternal credit of the borrowers that most of these loans have since been paid.

In these more enlightened days the term loan has been developed with finesse and complete understanding between the lender and borrower. Considerable use was made of this type of credit by many nationally

known corporations in the middle and late '30's and there is no reason why they should not be made available under proper governing conditions to small business. While the maximum period of such loans has rarely been longer than 10 years, a more typical maturity has not exceeded five years. Repayment is made in amounts and at times mutually agreed upon, but usually not less frequently than each three months. Term loans are generally covered by a collateral agreement which is tailor made to fit the needs of the customer. This agreement protects both the borrower and the bank and attempts to reach a meeting of minds on points which might cause dissension later. It covers such factors as limits on total indebtedness, maintenance of minimum financial ratios, bank review of management changes, and large capital expenditures. Dividend disbursements and salary and other withdrawals are usually circumscribed. Adequate accounting records and periodic reports are incorporated in the agreement. Collateral security is usually recited and acceleration of maturities provisions are established. Frequently such loans are further secured by a mortgage on plant or equipment. Should conditions change during the life of the agreement, an arrangement is usually made to amend the terms of the contract.

#### **New Forms of Financing**

When contemplating rendering assistance to small business during the postwar period, the thought occurs to me that banks may be able to render exceptional service to worthy companies having a background of integrity and ability, by making loans secured by warehouse receipts for many types of merchandise. This form of financing has become increasingly popular since the beginning of the war, and from considerable experience in our own institution we have found it convenient for both the borrower and lender and it has enabled many merchandise concerns to render outstanding service to their customers. I do not believe that it is necessary for me to discuss the details of such an arrangement in a group of this character.

Loans may also be made against the security of income producing equipment. In such cases the bank accepts title to the equipment or a lien upon it and the borrower repays the loan in installments usually out of earnings. It is of course expected that the borrower will have created an equity in this equipment at the time of purchase in such amount as may be mutually agreed upon. This field heretofore has been almost entirely usurped by finance companies, but many of our more conservative institutions are now planning to enter this field.

A third form of financing which has become increasingly popular and convenient is the creation of revolving credits wherein selected accounts receivable are assigned to the bank under legislation provided by the Commonwealth of Pennsylvania, approved July 31, 1941, as collateral for loans. Such loans are usually made upon the basis of an agreed percentage of the face value of the receivables. Notification is not usually made to the borrower's debtors but the machinery is handled by having someone in the employ of the borrower named as custodian for the bank, and proper no-

tation is made upon the borrower's ledger sheet. This plan may be used quite satisfactorily following liquidation in whole or in part of loans previously made against warehouse receipts.

In addition to all of the foregoing, banks of course will continue to make loans upon a collateral basis such as listed stocks and bonds, assignment of cash value of life insurance policies, small personal, consumer credit and automobile loans, as well as such other accommodations as may be created by the government under the GI Bill of Rights.

#### **Help for Smaller Communities**

While my remarks up to this point may be looked upon as a plan already established or to be established by city banking institutions, we have not lost sight of our responsibility to commercial enterprises in smaller communities. Instances may arise where customers of banks in such communities will demand requirements larger than their local depositories may be able to furnish under the law. If so, we stand ready to assist these smaller institutions with such problems by purchasing amounts in excess of such bank's legal lending limit. A large number of our downtown institutions have already addressed letters to their correspondent banks. I believe that the attitude of nearly all of the banks in the United States toward their responsibility in the postwar period is well summarized in an article which appeared in the November issue of *Pulling Together* published by the National Small Business Men's Association.

In closing I am taking the liberty of quoting from that article:

"Loans are now being made by literally hundreds of banks which not over six months ago would have been turned down with a loud and resounding 'NO.' Almost all the larger banks have set up or are organizing special small business loan departments and any business man who has a legitimate reason for borrowing money and whose record shows that there is a reasonable expectation of his being able to repay the loan, can borrow what he needs on terms and conditions tailored to fit his particular requirements.

#### **"Go See Your Banker!"**

"Many business men have hesitated to discuss their present and future financial requirements with their bankers, because, since they did not have 'gilt-edged' collateral they felt it would be a waste of time to do so. That might have been true in the recent past, but it quite definitely is not true today, and we strongly urge all our members to consult their bankers. Do this even though you don't now need to borrow money. You probably will want some financial assistance sometime, and if you lay the foundation now, it will speed things up greatly when you do need a loan.

"Before you 'Go to See Your Banker,' make a careful self-examination of your business, past, present and future. Put all the pertinent facts and your expectations down on paper, then talk the whole thing over with him. He'll respect your confidence, and you will undoubtedly be agreeably surprised at how far he's willing to go to help you."

# The Credit Manager's Opportunity

## *Close Study of Previous War Years Will Help*

By **R. G. GORDON**

Credit Manager, St. Louis Division, Shell Oil Co.

**C**redit managers who are students of financial history now find themselves reviewing records of the past.

We find a refresher of the post bellum conditions of the Civil War and World War I not as dry as it might once have been. We are willing to read anything which might direct us to the right course following the current World War.

No one expects to find a hidden formula by which financial figures were magically transformed from red into black, but there is a source of satisfaction and enlightenment in tracing the evolution of commerce through the war torn epochs of our forefathers who must have been imbued with the indomitable spirit so long associated with them. It is good environment and we can easily profit by their splendid examples of sacrifice, courage and foresight.

Reliable writers have compiled vast factual material and worthy opinions of these years and we had all hoped there would be no need for a future comparison.

The period with which we are most concerned covers about 80 years of our life in the capitalistic system of free enterprise, a very short span indeed when compared to all recorded history.

But these were important and formative years during the pioneering of our West and the financial expansion of our commerce, just prior to and following the mechanical development.

In these four decades we were building canals, turnpikes, railroads and automobile highways, and risk capital had to be and was provided. There came into existence the private and state banks of issue, the wildcat and shiplaster depreciated currency, some inefficiency and corruption. We experienced the controversial circulation of greenbacks. We read about the strained credit and the banks that failed, of the debates won and lost on hard money, and Bryan's silver ratio of 16 to 1.

We turn to another chapter, the national banks and their currency and the uphill competition with the state banks. Investment banking emerged slowly at first then gained momentum.

Finally the Federal Reserve, and the rather slow start and growth by trial and error increased its popularity. We see them intelligently avoid political patronage and grow to their present magnitude and importance.

In all these years we have retained our freedom of speech, freedom of action and freedom of religion. Ours is a government of the people and by the people.

Our freedom of enterprise has expanded and built a nation. We have become cultured and respected. There were, of course, many dark and uncertain days, but we were to go undaunted, as this is democratic America.

That we survived is our reward for perseverance, and as a nation we have prospered. Too much so in the eyes of our enemies.

This is but an atom of the mass of our financial history for three-quarters of a century, as each single year is crowded with volumes of interesting action.

Through all of this we are thinking entirely in the past while our progress has been built by looking to the future.

Great wisdom must be displayed by business if we are to maintain our forward course, and credit managers play a very important part in this program. It is the best opportunity our organization has had to reveal our talent and influence. It is our chance to take the lead in American business.

Often we will be in position to give sound advice and direction, and we should not hesitate to accept the responsibility. With our large number of specialists and by free and open debate of the issues we can develop prudent ways and means to march onward.

We should intermingle with all civic groups on policy matters, and should work untiringly to render intelligent aid. We should emerge from the new era highly respected and have our value definitely established.

When this is done we should work harder than ever to see there is no cause for us to lose this high position of confidence in our community.

This should prove very interesting and will be a fine contribution to a worthy and lasting cause.

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### Credit Guides for Salesmen

**The editors hope to present in the April issue a review of some of the Credit Guides or Manuals now in use. If your company has such a Credit Guide for your salesmen, please send it in.**

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# Preparing for Terminations

## *Suggested Program for Average Size Plants*

By **SIDNEY KOHLERITER**

C.P.A. New York City

**T**his article has been prepared for the purpose of acquainting management of average size war plants with the many problems arising from war contract terminations as they apply to Fixed Price Supply Contracts. In so doing the writer has attempted to present information in simple and precise language which will enable the average war contractor to better understand these inherent problems.

Termination of your contracts will be a new experience and unless you are prepared to cope with the situation the result will be disastrous. You cannot expect to profit from terminations. However, you most certainly are entitled to recover your costs and secure a prompt and fair settlement.

By signing a contract containing a termination clause you are assuming certain contractual obligations and are entitled to certain rights. It is therefore your duty to familiarize yourself with your duties and correspondingly acquaint yourself with your rights. If you fail to meet your obligations when they come due or take advantage of your rights when they mature, you may suffer considerable loss and expense.

### **Advance Preparation Required**

No doubt you have made post-war plans. However, unless you hurdle the obstacles presented by terminations, your plans may go awry. It is imperative therefore that you recognize the importance of this problem and invest the necessary time, effort, and expense in advance preparations. It is noteworthy that accounting and legal expenses incurred in connection with the installation of termination procedures and the preparation of termination proposals are reimbursable costs.

For the purpose of simplicity this report has been divided into the following sections:

"A" Preparations Prior To Terminations.

"B" Procedure After Receipt of Termination Notice.

"C" Points of Interest in Joint Army-Navy Termination Regulations.

"D" Check List of Allowable and Unallowable Costs.

It must be remembered that each case is peculiar and distinct requiring individual attention and consideration. Furthermore, with the passing of each day new policies and regulations are promulgated which necessarily must be taken into consideration.

In conclusion, to reiterate, terminations cannot be a

profitable venture but they most certainly can be a very expensive and costly experience.

### **Preparations Prior to Termination**

Select a competent executive to familiarize himself with termination procedures and vest in him the responsibility of supervising and administering all matters pertaining to terminations. Make available to this individual adequate legal and accounting assistance in order that he may have the proper technical advice. (Secure copy of Joint Army-Navy Regulations and Joint Termination Manuals.)

A conference of all interested executives should be held at which time each individual's duties and responsibilities should be outlined and when definitely ascertained, reduced to writing to obviate misunderstandings or lapses of memory.

Examine termination clauses in all uncompleted contracts. Consider advisability of having Uniform Termination Article inserted in your contract. The "Contract Settlement Act of 1944" permits and recommends that contracts be amended to incorporate the aforementioned termination article, which is equitable and therefore preferable.

Review your accounting records and internal procedure to determine whether they are adequate. You must remember that the burden of proof rests with the contractor for any proposals submitted. If your records are inadequate and you cannot substantiate your claim conclusively you may suffer a loss. With this *thought* in mind see if you can answer the following questions:

A) Can you compute your initial set-up costs, e.g., engineering, development, samples, patterns, etc.?

B) Can you determine for which contracts certain jigs, guage, dies, or patterns were manufactured? If so, can you determine their respective costs?

C) Do you have a production control system which will enable you to identify materials, purchased parts, and work in process, by contract numbers and at the same time prevent excessive inventories, for which the government will not be responsible?

D) Can you identify purchase orders issued with the respective contracts?

E) Can you determine your unit labor costs at various stages of production?

F) Can you identify those items of expense which can be charged directly to any particular contract?

G) Can you determine the time expended and expenses incurred with respect to the termination after the termination date?

H) Have you on file your estimates of costs used in connection with the original bid or the cost reports submitted to the O.P.A.?

#### Prepare for Immediate Inventory

Make necessary arrangements for taking inventories as soon as possible after receipt of cancellation notice. Train personnel to do this job in accordance with pre-arranged plans. Determine what constitutes a "satisfactory" schedule with regard to description and classification. The factor of storage space should be considered and where inadequate, arrangements should be made for outside space.

Decisions should be made in advance regarding the disposition of surplus materials. If any materials, purchased parts, or work in process allocable to the terminated contract can be used, ascertain their respective values and make arrangements with the government contracting agencies for their retention on a "when and if basis."

If you have any sub-contracts, determine whether your files contain all the necessary information such as:

- A) The prime contract number
- B) The name of the Government procurement agency
- C) The name of the contracting officer.

#### Have Forms Ready

Have available at all times an ample supply of forms required for terminations such as:

- a—Cancellation Telegrams
- b—Letter Confirming Cancellation Telegrams
- c—Letter of Instructions
- d—Inventory Tags
- e—Inventory Sheets
- f—Purchase Dept. Control Sheets
- g—Termination Time Reports
- h—Final Payment Stamps

Make arrangements to handle all problems in connection with subcontractors such as:

- a—Do all your purchase orders contain termination clauses? If not, have them inserted.
- b—Are all contracts with subcontractors reduced to writing?

Familiarize yourself with the various methods of interim financing in case of termination. Consult your bank for advice regarding your individual needs. The different methods providing for interim financing are:

- a—Partial Payment
- b—"T" Loan
- c—"V. T." Loan
- d—Advance Payment

#### Predetermined Termination

Consider advisability of requesting a predetermined termination settlement whether a prime or subcontractor as permitted under Regulation No. 3 dated Sept. 27, 1944. In certain instances it may be beneficial to have definite advance arrangements in case of termination. This will facilitate plant clearance, eliminate considerable red tape, and enable you to continue plant operations without any interruption.

### Check List

#### ALLOWABLE COSTS (A)

1. Inventory Applicable to Terminated Quantities
2. Purchasing & Handling Costs
3. Depreciation
4. Experimental
5. Development
6. Research
7. Engineering & Special Tooling
8. Loss on Special Facilities
9. Special Leases
10. Interest
11. Starting Labor Cost
12. Starting Overhead Cost
13. Settlement Expenses, e.g., Accounting, Legal, etc.
14. Cost of Protecting and Disposing of Surplus Property
15. Patent Royalties

#### UNALLOWABLE COSTS

1. Losses on Other Contracts
2. Expenses of Conversion to Other Uses
3. Expenses Due to Negligence or Willful Failure to Discontinue Work.
4. Costs Incurred in Respect to Facilities, Materials, or Services Purchased or Work Done in Excess of Reasonable Quantitative Requirements of Entire Contract.

#### Notes:—

A) General Principle—All reasonable and necessary costs properly allocated to the terminated contract.

B) Limitation—Your claim cannot exceed the total contract price of the terminated portion of the contract plus post termination costs.

Request a conference with the Termination Section of the Procurement Agency to determine their policy and requirements. Also, submit to them a written statement setting forth your method of cost keeping, distribution of overhead, and general accounting procedure, for approval and suggestions.

To facilitate settlements with subcontractors, apply for permission to settle all subcontractors claims not in excess of \$10,000.

In connection with special facilities and equipment acquired solely for the performance of a particular contract, review leases, contracts and surrounding circumstances, and secure whatever additional information is required to support your position.

If any special costs are to be incurred a provision should be inserted in the original contract definitely fixing the government's responsibility in case of termination.

#### Educate Your Subcontractors

Educate subcontractors in all matters pertaining to terminations especially proper record keeping.

Where it is determined that the prime contractor is financially irresponsible, arrangements may be made for direct payments by the Government Agency.

Request company-wide termination settlement where more than one contracting agency is involved.

All arrangements or instructions received from Government Agencies should be reduced to writing so as to eliminate future misunderstandings.

Formulate plans for continued production by rapid conversion to civilian manufacture.

Familiarize yourself with the various types of certifications prescribed by the regulations, e.g., partial payments, final payments, inventory, scrap, etc.

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**An announcement was made by the Federal Reserve Bank of New York on February 20 that a change had been made in the rules regarding collection of cash items, effective March 1, 1945. Under this change protests will be made only on items over \$100.00 in place of \$50.00 as previously and telegraph advice of non-payment of items will be made of those of \$1,000. or over instead of \$500. or over. This revision has been made at the suggestion of the American Bankers Association, which recently made a poll of the bankers and found that the majority were in favor of the change.**

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#### **Procedures After Receipt of Termination Notice**

Inform all interested executives of the cancellation. Stop work on the date and to extent specified.

Place no further orders for materials, services, or facilities for the termination portion of the contract.

Send Termination Telegram followed up by Confirmation Letter to all subcontractors whose orders apply to the terminated portion of the contract.

Send Instruction Letter to all subcontractors and supplier's who have indicated they would file a claim. Examine and attempt to negotiate settlements with subcontractors subject to approval of the contracting officer.

Ascertain that record of all time expended in connection with the termination settlement is properly recorded on Termination Time Report.

Take inventory of purchased parts, materials, and work in process resulting from the termination, using inventory tags. Set aside inventories in pre-arranged location and provide adequate protection.

#### **Handling Surplus Inventory**

Endeavor to sell or retain surplus inventories. It should be remembered that the Contracting Officer's approval must be secured where inventories are disposed of at a price below cost.

File your termination proposal on standard forms supplied by the Government. It is noteworthy that the Government encourages the submission of additional relevant information. The presentation of figures with adequate explanations in proper form and detail will be helpful to the government personnel and should expedite approval of your claim.

Comply with all instructions contained in termination notice.

Immediately notify contracting offices or prime contractor of any legal proceedings instituted by subcontractors as a result of the termination of their respective contracts.

#### **Joint Army-Navy Termination Regulations**

Where a war contract is terminated for default and the subcontractors are not in default, the subcontracts will be terminated in accordance with the Joint Termination Regulations. (111.4)

Termination notices must be in writing. (245-2)

Contractor is entitled to an equitable adjustment of price for the continued portion of the contract upon presentation of evidence showing probable changes in cost of such performance resulting from the partial termination. (251.2)

Partial payment fund may be created in advance of subcontractor's requests, so that partial and final payments may be made to subcontractors. (364.1)

Definite procedures have been established to enable subcontractors to secure direct payments. (366.1)

The Government is required to store or to remove the termination inventory within sixty days after submission of inventory schedule in form and detail provided by the regulations. (413)

Sales or other disposition of property arising from terminations will be made subject to all Governmental Agencies' rules and regulations. Responsibility for compliance therewith shall rest with the contractor. (437)

Sales of inventory, resulting from terminations, should ordinarily be made for cash. Credit will be extended by a contractor or subcontractor at his own risk. (445-1)

Where a loss is indicated on the entire contract, the contractor is still entitled to receive reimbursement on the basis of his costs applicable to the uncompleted portion of the contract. (323.3(-2))

Profit allowed on uncompleted portion of contract should be reasonable under all circumstances. No particular method for computing profit is provided. However, it should be based on work actually done or indicated rate of profit. Anticipated profit is not permitted. (533-1)

#### **Reasonable Charges O.K.**

Contractor may charge reasonable expenses of advance planning for terminations to future terminations on a fair basis. (554)

Interest at the rate of 2½ per cent shall be included in each settlement. (571.1)

As a minimum requirement each war contractor must make an office review for all claims exceeding \$1,000, after deducting disposal credits. These reviews must be supported by written reports. (633.1)

The contractor and subcontractor are charged with the responsibility of examining and reviewing their subcontractor's proposals and endeavor to negotiate a settlement with them subject to Contracting Officer's approval. (632)

All war contractors have authority to negotiate final settlements under \$1,000 (including credits for retention or disposal of the inventory) with subcontractors without approval. (643.1)

Settlement proposals should be submitted within 60 days after effective date of termination. (712.3)

Where a determination has been made by the government agency (Formula Settlement) the contractor may appeal the findings of the agency. (755.1)

# Retail Agreements Excluding Competitive Goods

By **ALBERT GRAY**  
Special Writer, New York

**C**A recent suggestion of Judge Clark of the Circuit Court of Appeals, referring to advertising, that it should be "clear enough so that in the words of the prophet Isaiah, 'wayfaring men, though fools, shall not err therein,'" (1) might have embraced thirty years of the judicial denunciation of wholesale-retail agreements excluding competitive goods. This, too, is clear for all to read.

A decision by the United States District Court a few weeks ago reasserted the validity of Section 3 of the Clayton Act forbidding contracts between producer and retailer excluding competitive goods from retail trade. This latest effort, aimed at sustaining such an agreement, went the way of every effort thus far made to evade the prohibitions of that law.

A contract was made by the Standard Register Company with retail customers permitting the use of a patented device for making up certain types of billing sheets on condition that, "This license shall continue \* \* \* only so long as no continuous form material or marginally punched forms obtained elsewhere than from owner \* \* \* is used by User with the licensed property." (2)

## What the Act Provides

Section 3 of the Clayton Act provides: "It shall be unlawful for any person engaged in commerce in the course of such commerce to lease or make a sale or contract for sale of goods \* \* \* on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods \* \* \* of a competitor or competitors of the lessee or seller, where the effect of such lease, sale or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

An effort was made by the Standard Register Company to cloak its contract in the sheep's clothing of a loan agreement. "A distinction without a difference," commented the District Judge, citing as authority a Supreme Court decision handed down in January, 1942, on the opinion of Chief Justice Stone.

In that instance a G. S. Suppiger Company owned the patent on a "tablet depositing machine," used in the canning industry in place of brine or loose salt. The company also manufactured the salt tablets used in the machine, that differed from other salt tablets in

no particular except that they were the product of the patentees.

In promoting their salt tablet trade contracts were made with the canning industry, leasing these machines on the condition that Suppiger's salt tablets be used exclusively. The tablets were not patented. There was nothing to patent. They were salt tablets, nothing more. To stimulate a demand their makers linked their marketing to the patent.

## Court Holds Monopoly Created

A Morton Salt Company, for its part, aided the sale of its salt tablets by an unpatented machine that Suppiger alleged to be an infringement of their patent. In the United States Supreme Court two vulnerable points appeared in the armor of Suppiger when it essayed to enjoin the infringement. The patentee was seeking not only to restrain competition by contracts for the exclusive use of its product, but it was prostituting the patent monopoly to foster the sale of an unpatented product.

"The patentee," commented Justice Stone, dismissing the infringement suit, "like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy." (3)

So strong has been the hostility against this method of suppressing competition, it has been enacted in the federal statutes that, "A patentee who has granted a license on condition that the patented invention be used only with unpatented materials furnished by the licensor may not restrain as a contributory infringer one who sells to the licensee like materials for like use." The underlying principle is identical with that of Section 3 of the Clayton Act, that contracts may not suppress retail competition.

## United Shoe Machinery Case

Probably the most noteworthy instance of implementing these patent monopolies occurred in the United Shoe Machinery case less than two years after the enactment of this provision of the Anti-Trust Laws. (4) The machines of the company, some 30,000, were leased to shoe manufacturers throughout the country under an agreement that, "The leased machinery will not, nor shall any part thereof, be used in the manufacture or preparation of any welted boots, shoes or other foot-

wear, or portions thereof, which have been or shall be welted in whole or in part, or the soles in whole or in part stitched, by the aid of any welt sewing or sole-stitching machinery not held by the lessee from the lessor or in the manufacture or preparation \* \* \*” followed by an exhaustive catalogue of manufactured shoe parts. Violation of the contract terminated the license for the use of the machines.

Action was brought by the Federal Government for a decree annulling the leases and enjoining their enforcement. Judge Dyer, in the decision of a preliminary motion, said, “If the course adopted and practiced by the defendants has had the effect to stifle competition and create a monopoly, then the law should be enforced even if it resulted in going back to the awl and the wooden peg.”

Ten years of litigation and the Supreme Court, on the opinion of Justice Day, finally laid at rest these contracts and the exclusive rights in shoe manufacturing machinery. The doctrine of the halcyon days of patentees, enunciated in the Heaton-Peninsular Button Fastener case (5) was swept away into the dust heaps of the past. “If the patentee choose to reserve to himself the exclusive use of his device, and the invention be of a wide character and so radical as to enable him to make and sell an unpatentable product cheaper than any other competitor, a practical monopoly of the market will result; and yet no one could say that a monopoly thus secured was illegitimate or obnoxious to public policy. \* \* \* The monopoly thus secured would be the legitimate consequence of the meritorious character of this invention.” “The old order changeth, yielding place to the new,” wrote the poet.

#### Another Recent Case

A few months ago the Supreme Court again sustained a decree against the same merchandising method, except in this instance the scheme was to maintain prices instead of excluding competition. A license agreement by the manufacturers of eye glass lenses licensed retailers to sell their product and the retailer, “to use its best efforts to promote and further the use and sale of Soft-Lite lenses and further agrees to do nothing which may adversely affect the prestige of said lenses.” (6)

The judgment sustained by the Supreme Court cancelled the agreements and enjoined their enforcement.

Efforts to surmount the obstacles interposed by the Clayton Act against the exclusion of competitive goods have been futile in every instance when implemented by the patent laws and licensing agreements.

Another method, however, was adopted only a few weeks after the enactment of the statute. In November, 1914, the Standard Fashion Company made a contract with the Magrane Houston Company of Boston, giving the latter the sales agency of Standard patterns. This agreement provided, “Second party also agrees \* \* \* not to sell or permit to be sold on the premises of the second party, during the term of this contract, any other make of patterns and not to sell Standard patterns except at label prices.”

This device, seasoned as it was by time and litigation, making a retailer the agent of the manufacturer,

was adopted on the theory that the act of the retailer would be the act of the manufacturer. The Magrane Houston Company discontinued the sale of Standard patterns and placed in stock patterns of the McCall Company, notifying the Standard Fashion Company the contract was at an end.

#### No Agency Involved

Aware of the substitution of competitive goods the pattern company sought by injunction to enforce the contract against the sale of “any other make of patterns.” The defense of the retailer was the illegality under the Clayton Act of the exclusive retail clauses. This the Standard Fashion Company met with the assertion that the statute did not apply since the retailer was merely an agent.

The Supreme Court scattered the agency theory with the terse comment by Justice Day, “Full title and dominion passed to the buyer. While this contract is denominated one of agency, it is perfectly apparent that it is one of sale.” (7)

Within three years of this decision the Butterick Company, another dress pattern manufacturer, sought relief from a cease and desist order of the Federal Trade Commission, based on facts identical with the Standard Fashion Company case. The pattern company had contracts with approximately twenty thousand retail dry goods dealers. Under these the retailer contracted that he would neither sell nor permit the selling on his premises of any competitive dress patterns.

The order of the Federal Trade Commission prohibited the company “from selling the patterns manufactured by them, or any of them, for resale to the public, upon any contract, agreement or understanding that the distributor \* \* \* shall not deal in patterns produced by any other maker.” The Circuit Court of Appeals upheld the order of the Commission. (8)

#### Opposed to Monopoly

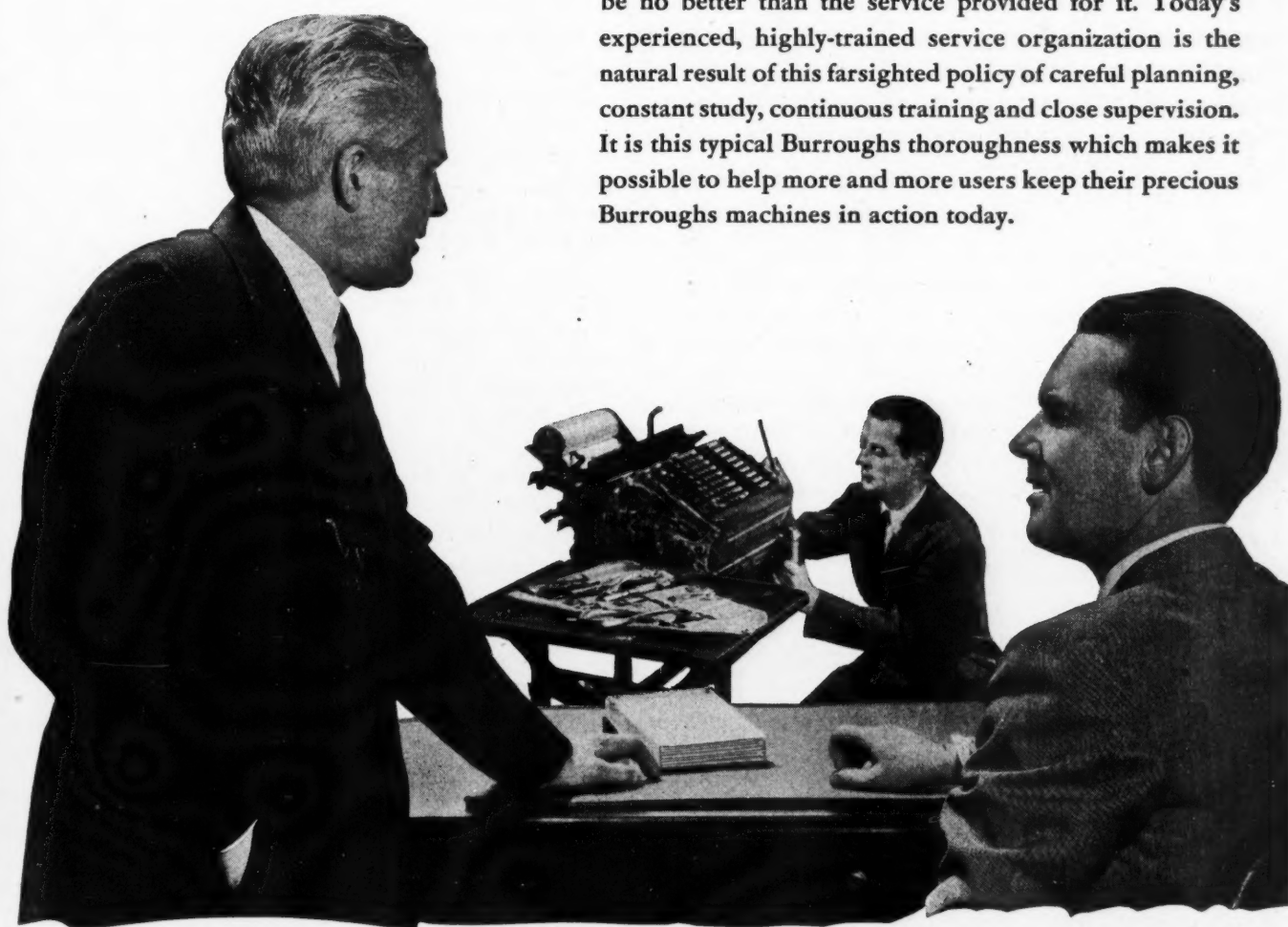
Any contract scheme for excluding retail competition by patent monopolies, licensing agreements or agency contracts was long ago described by Judge Jenkins in the Circuit Court of Appeals, as “‘conceived in sin and brought forth in iniquity,’ that wrong attended at its birth and that fraud stood sponsor at its christening.” (9) This ingrained hatred of monopoly that begot the third section of the Clayton Act has been a sturdy force in the English law since the days of Elizabeth and the Stuarts.

“These,” said Sir John Culpepper, damning in Parliament the monopolies of the reign of Charles I, “like the frogs of Egypt, have gotten possession of our dwellings, and we have scarcely a room free from them. They sip in our cup; they dip in our dish; they sit by our fire; we find them in the dye vat, wash bowl and powdering tub. They share with the butler in his box; they have the market and slit us from head to foot; they will not bate us a pin.” (10)

On the other hand our law has fostered with equal tenacity individual freedom in business. “The right to life,” said Justice Andrews of the New York Court of Appeals in 1878, referring to the “due process” clause of the Constitution, “includes the right of the

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today, when mechanical service  
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Burroughs' ability to maintain its high service standards during these trying war years didn't just happen! Years ago, Burroughs established a definite service policy in recognition of the fact that any mechanical product can be no better than the service provided for it. Today's experienced, highly-trained service organization is the natural result of this farsighted policy of careful planning, constant study, continuous training and close supervision. It is this typical Burroughs thoroughness which makes it possible to help more and more users keep their precious Burroughs machines in action today.



**1st  
Burroughs**  
IN MACHINES  
IN COUNSEL  
IN SERVICE

Burroughs systems and installation men have been constantly helping business machine users to make the fullest use of the equipment they now own . . . helping them to adapt their present machines to new conditions. Reference libraries containing up-to-the-minute information on machine accounting methods and procedures are maintained in all Burroughs offices. For help in getting the fullest use from your present Burroughs machines, call the local Burroughs office, or write Burroughs Adding Machine Company, Detroit 32, Michigan.

FIGURING, ACCOUNTING AND STATISTICAL MACHINES • NATIONWIDE MAINTENANCE SERVICE • BUSINESS MACHINE SUPPLIES

Credit and Financial Management . . . . . 17 . . . . . March, 1945

individual to his body in its completeness and without dismemberment; the right to liberty, the right to exercise his faculties and to follow a lawful avocation for the support of life." (11)

### The Law of Free Enterprise

The United States courts established at an early date the principle that, "No proposition is more firmly settled than that it is one of the fundamental rights and privileges of every American citizen to adopt and follow such lawful and industrial pursuits, not injurious to the community, as he may see fit, without unreasonable regulation or molestation. There is no more sacred right to citizenship than the right to pursue any lawful employment in a lawful manner. It is nothing more nor less than the sacred right of labor." (12)

The influence of such a comprehensive principle must inevitably seep into the decisions involving industry and business. With the advent of the Sherman Anti-Trust Law in 1890 and the supplementary legislation of the Clayton Act 24 years later, this doctrine not only took its place as a Constitutional principle but threw its mantle of protection over industry in fending from business the anti-monopoly assaults of the past 50 years.

When the Great Atlantic and Pacific Tea Company brought their now celebrated action against the Cream of Wheat Company, the court uncompromisingly maintained this right of a business to select its own customers. "Never before has it been urged," exclaimed Judge Hough, "that if J. S. made enough of anything to supply both Doe and Roe, and sold it all to Doe, refusing even to bargain with Roe, for any reason or no reason, such conduct gave Roe a cause of action. If Congress had sought to give him one the gift is invalid, because the statute takes from one person for the private use of another the first person's private property." (13)

The Cream of Wheat Company refused to sell to the plaintiff. The action was brought to declare illegal the Cream of Wheat Company's refusal to sell. The comment was made in denying the application of the Great Atlantic & Pacific Tea Company for a preliminary injunction, substantially a judicial order that defendant sell its product to plaintiff. This refusal of the lower court to grant the injunction was appealed. "We had supposed that it was elementary law," said the Circuit Judge, "that a trader could buy from whom he pleased and sell to whom he pleased, and that his selection of seller and buyer was wholly his own concern. It is part of a man's civil rights that he be at liberty to refuse business relations with any person whomsoever, whether the refusal rests upon reason or is the result of whim, caprice, prejudice or malice."

### May Select Our Customers

With this decision the guarantee of the right to life and liberty was extended to business and industry. Three years later it became firmly established, a frontier beyond which the inhibitions of the Clayton Act outlawing exclusive retail sales contracts did not reach.

The soap manufacturer, Colgate & Company, was indicted in Virginia by the Federal Grand Jury, for violation of the Sherman Anti-Trust Act. The activities the

government claimed to be criminal were that the company had notified retailers of the retail price of its products; further, that should retailers fail to adhere to these scheduled prices, Colgate & Company would refuse them further goods. The case arose prior to the enactment of the Miller-Tydings Law and the various fair trade acts, and before retail price fixing had received its present bath of immunity.

### No Crime to Set Prices

These actions clearly presented the question, how far may one control and dispose of his own property. "That he may not do so \* \* \* in unlawful combination with others," was admitted by the court to be unquestioned. (14) The court, however, sustained the soap company's contention that its activities not only were no crime but within its constitutional rights. The decision came for review before the Supreme Court in the spring of 1919.

In exonerating the defendant Justice McReynolds referred to the comment of the lower court wherein was established the boundary between individual business freedom in marketing and the unholy ground of monopolistic activity.

"The pregnant fact should never be lost sight of that no averment is made of any contract or agreement having been entered into whereby the defendant, the manufacturer, and his customers, bound themselves. \* \* \* No suggestion is made that the defendant, the manufacturer, attempted \* \* \* to restrain the vendee in his right to barter and sell \* \* \* without restriction. The retailer \* \* \* might by his action incur the displeasure of the manufacturer, who could refuse to make further sales to him, as he had the undoubted right to do." To this Justice McReynolds added that the manufacturer, "may announce in advance the circumstances under which he will refuse to sell."

The boundary established over a quarter of a century ago by this decision endures undisturbed today. It is the lines of Kipling,

"Down to Gehenna or up to the Throne  
He travels the fastest who travels alone."

"An act," once said Justice Lurton, harmless when done by one may become a public wrong when done by many acting in concert." (15)

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- (1) *Charles of the Ritz v. Federal Trade Commission*, 143 Fed. 2d, 676.
- (2) *Standard Register Co. v. American Sales Book Co.*, 56 Fed. Suppl. 475.
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- (4) *United States v. United Shoe Machinery Co.*, 258 U. S. 451; 264 Fed. 138; 234 Fed. 127.
- (5) *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 Fed. 288.
- (6) *United States v. Bausch and Lomb*, 321 U. S. 707; 45 Fed. Suppl. 387.
- (7) *Standard Fashion Company v. Magrane-Houston Company*, 258 U. S. 346; 259 Fed. 793; 251 Fed. 559.
- (8) *Butterick Company v. Federal Trade Commission*, 4 Fed. 2d, 910.
- (9) *Kathreiner's Malzkaffee Fabriken Mit Beschraenkter Haftung v. Pastor*, 82 Fed. 321, 324.
- (10) *Francis Hirst: Monopolies, trusts and kartells* (1905) page 20.
- (11) *Bertholf v. O'Reilly*, 74 N. Y. 509, page 515.
- (12) *Live Stock Dealers & Butchers Ass'n v. Crescent City Live-Stock Landing & Slaughterhouse Co.*, 1 Abb. (U. S.) 399; Fed. Cas. 8408.
- (13) *Great Atlantic & Pacific Tea Co. v. Cream of Wheat Co.*, 224 Fed. 566, 574; aff'd. 227 Fed. 46.
- (14) *United States v. Colgate & Company*, 250 U. S. 300; 253 Fed. 522.



## Look in the Mirror, Mr. Driver!

You drive carefully...your car's in good shape...you have automobile insurance protecting you against damage suits, fire, theft or damage to your car. So you're all set for carefree motoring, aren't you? *Maybe not!* Look in the mirror, Mr. Driver . . .



**Does your Automobile Insurance cover the guest in your car?**

If you should have an accident—if your guest should be injured—you'd want to say, "Get the best possible medical care. It's on me!"

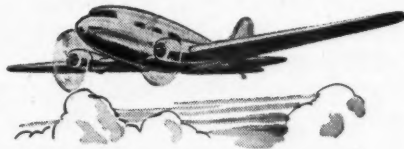
**Look in the back seat . . .  
is your family protected?**



And of course you'd want the best of medical attention for your family. You can have it. For just a few dollars more—as little as \$3 a year in many communities—your Hartford Automobile Insurance will pay all medical expenses . . . doctors, nursing, hospital, etc. up to \$250 per person for every person in your car—more if you wish!

## Hartford "Medical Payments" Insurance protects you, your guests, your family!

This feature is simply added to your regular automobile policy. It pays medical expenses for yourself and all passengers who may be injured—whether the accident is your fault or not. Your Hartford agent or your insurance broker will be glad to give you the whole story. Or write us.

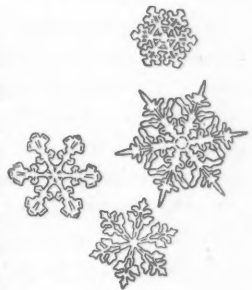


## Aviation Insurance? Of course!

Your Hartford agent or your insurance broker is just as "air-minded" as you are! He'll be glad to provide the protection of good, strong insurance for your plane . . . your fleet of airliners...yes, even for that helicopter that is coming some day. *Right now* you can get protection for *all* good, safe, insurable aircraft.

## Beautiful—but dangerous

Snowflakes may spell trouble around your home this winter. Before you know it, they're packed down hard... and slippery. Someone falls—a guest, perhaps, or a servant. Your fault? Maybe not, but nevertheless you may face the threat of a costly lawsuit. Hartford's \$10-a-year "Damage Suit Insurance" thaws you out of trouble more quickly than a warm spring sun. Covers you up to \$10,000!



## Don't pick them 'till they're ripe!



Let your War Bonds grow to maturity. You'll be glad some day that you let them grow, let the interest pile up, until they pay off at full face value. That way you'll get four dollars back for every three you invested. Uncle Sam can't buy bullets with the bonds you *used* to own!

# Hartford Insurance

Hartford Fire Insurance Company  
Hartford Accident and Indemnity Company  
Hartford Live Stock Insurance Company

*Writing practically all forms of insurance except personal life insurance • Hartford 15, Conn.*



## Factors in the Credit Decisions

(Continued from page 7)

Such net loss is not deemed a failure of the credit department, but is viewed as part of the company's promotional expense.

In other lines of business similar consideration often determine continued selling to substandard outlets which have special promotional value. The seller receives extraneous benefits from such selling over and above the profit on those payments that are actually made. Consequently a greater nonpayment loss can be taken on these accounts than would be warranted by strict consideration of the ordinary profit principle.

The more efficient a credit department is in its collection procedures, the lower are the credit risks to which it may safely sell. In effect, a vigorous and efficient collection technique reduces the nonpayment loss that may be expected from each risk category. Such reduction of loss probability may bring a category of customers that would be under the level of acceptability for a competitor with a less efficient collection procedure, over that level for the firm that does effective collection work.

A particular application of this principle may be observed in the case of firms that obtain their orders primarily through travelling salesmen who visit their accounts at short intervals—semi-monthly, monthly, or bi-monthly. There are limitations to the use of salesmen as collectors, but where such collection technique is possible the probability of nonpayment by low-risk customers is reduced. If terms are net 30, and the salesman visits the customer every 60 days, he is able to deal personally with the customer before any item is more than 30 days overdue. Dealing face-to-face with the customer, he is able to make collections which might not succeed if dependence had to be placed exclusively on correspondents. Under such circumstances, a credit department can approve sales to a lower risk category of customers than would be proper if collection procedure were based primarily on correspondence.

### Disposal of "Dead" Stock

A selling firm sometimes finds itself burdened with "dead" stock—an excess of seasonal goods as a result of misjudging a seasonal demand, a model that did not take the fancy of the market, stock beyond the needs of its ordinary market purchased at bargain prices, through a bankruptcy sale. So long as such stock remains unsold, it is dead inventory tying up working capital and storage space. If it remains unsold too long, it will have only scrap value. The sales force is instructed to make every effort to sell such stock—possibly extra commissions are given to salesmen who get orders for it. Suppose several of these orders come from customers who, when investigated, are found to belong to submarginal risk categories. Should the orders be refused? Probably not. The nonpayment loss on such orders may be high—higher than could ordinarily be taken on a risk category in view of the sell-

er's general profit margin. But the certain loss that would ensue from failure to sell the "dead" stock would be still higher. Common sense should dictate approving at least these special orders to the submarginal customers: the credit manager is always free to refuse to check subsequent orders from them which do not involve any of the firm's "dead" stock.

### The Seller's Working Capital Position

One intermediate risk category generally recognized by credit men is the group of customers who may eventually be expected to pay their accounts in full but who, because of weak working capital positions, are practically certain to be "slow pays" for some time to come. Persistent collection pressure will obtain their checks for all purchases—but 30 days late, 60 days late, or with even longer delays. A seller that has a good working capital position can afford to carry such accounts, and the eventual net profit on sales to them is only slightly less than that on sales to prompt-paying customers. But a seller that itself has a weak working capital position may not be able to take on such accounts. The certain delay in receiving payments from such customers may leave its bank balance so depleted that it will be unable to meet its bank and trade debts as they fall due, thereby injuring its own credit standing and making more difficult the obtaining of the future credit accommodations it will undoubtedly need. Regretfully the credit manager of a seller pinched for working capital must say "no" to orders from such customers, even though they otherwise constitute an acceptable risk category, and even though competitors are not merely willing, but glad, to sell to them.

## Rochester Banks Unite In Veteran Aid Plan

Rochester: The banks of Rochester have united in a plan to offer help to returning service men and women by establishing a central office staffed with especially trained personnel. This office will deal with nothing but the problems of the returned G. I.'s and especially the questions arising in connection with G. I. loans. The Central office is known as the Rochester Veterans' Financial Service. The office is staffed by executives of importance loaned by several banks. While the Veterans' Financial Service does not engage in actual loans, all applications for veterans' loans originating in the Rochester area are processed at this point. After such preliminary proceedings the papers are turned over to one of the nine banks chosen by the applicant which may either make the loan, or refer the applicant back to the financial service director, who will then contact another bank for the loan applicant.

The Veterans' Financial Service has been backed up by some attractive advertising in the Rochester papers and has proven quite helpful for returning service men.

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QUANTITY PRODUCTION  
when you buy  
N.A.C.M. STANDARD FORMS**

Financial Statements, Operating Statements, Trade Acceptances, Enclosure Cards and other N.A.C.M. Standard Forms are published in large quantities to enable exceptional savings to credit executives. Even the work of imprinting these forms with the name of your corporation is handled on a standardized plan to bring these forms to you at low cost.

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FINANCIAL STATEMENT FORMS**

These are designed to cover practically every type of business from the smallest merchant to the department store, jobber or manufacturer.

**COMPLETE SAMPLE BOOK SENT FREE**

The best way to determine how easily Standard N.A.C.M. Forms can be used in your credit and collection work is to look over samples. We shall be glad to mail a complete book of samples upon request.

Publications Department

**NATIONAL ASSOCIATION OF CREDIT MEN**  
One Park Ave. New York City

# What Would You Say?

## *A Discussion of the Psychology of Credits*

By J. A. WALKER

Asst. Manager Credit Department Standard Oil Company of California  
San Francisco

**CF** It may not be a new idea, but if you present it in a new and different manner, surprising results sometimes occur. While credit fundamentals do not change—the manner in which they are presented is subject to change. Now is the time for Credit Managers to examine the tools they are using in credit administration and education. Are these tools adequate for post-war operations, or should new ones be developed?

Someday, and we hope soon, the war will be over and it will be a theme for the historians and military colleges to deal with. Then we in industry will be less concerned with war orders, priorities, rationing, renegotiations, etc., and will turn our thoughts to peacetime goods and competitive merchandising. We probably still will have with us most or all of our prewar problems with some new ones added.

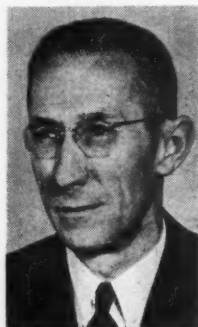
Sales Managers and Credit Managers will have a set of factors to deal with that will be different from those that engrossed their thinking during the war years. Our concept of procedures, practices, and customer relations will require considerable change from wartime operations. It may not be sufficient to pick up the threads where we dropped them when we converted to wartime operation. When peace again returns we must improve our prewar methods if we wish to keep abreast of changed conditions in the competitive bid for business.

As people in time of peace are supposed to prepare for war, so industry in time of war should give some thought to peace, as populations must carry on and rehabilitate themselves to the normal way of life as quickly as possible.

During the present period Credit

Managers have not been burdened with as many nor as complex problems as in normal peacetimes. This respite has given us an opportunity to prepare to do a better job for our companies when the needs and restrictions of war are removed.

Passing upon the credit responsibility of customers and seeing that accounts receivable are properly converted to cash, while important phases of a Credit Manager's responsibilities, by no means encompass all that he



can, should, or is expected to do. Credit is one of the instruments of merchandising, and when intelligently used between reliable persons it becomes a great aid in making profitable sales. Also, in the hands of the skilled it can be fashioned into one of the best and most practical mediums possible for building and maintaining customer goodwill.

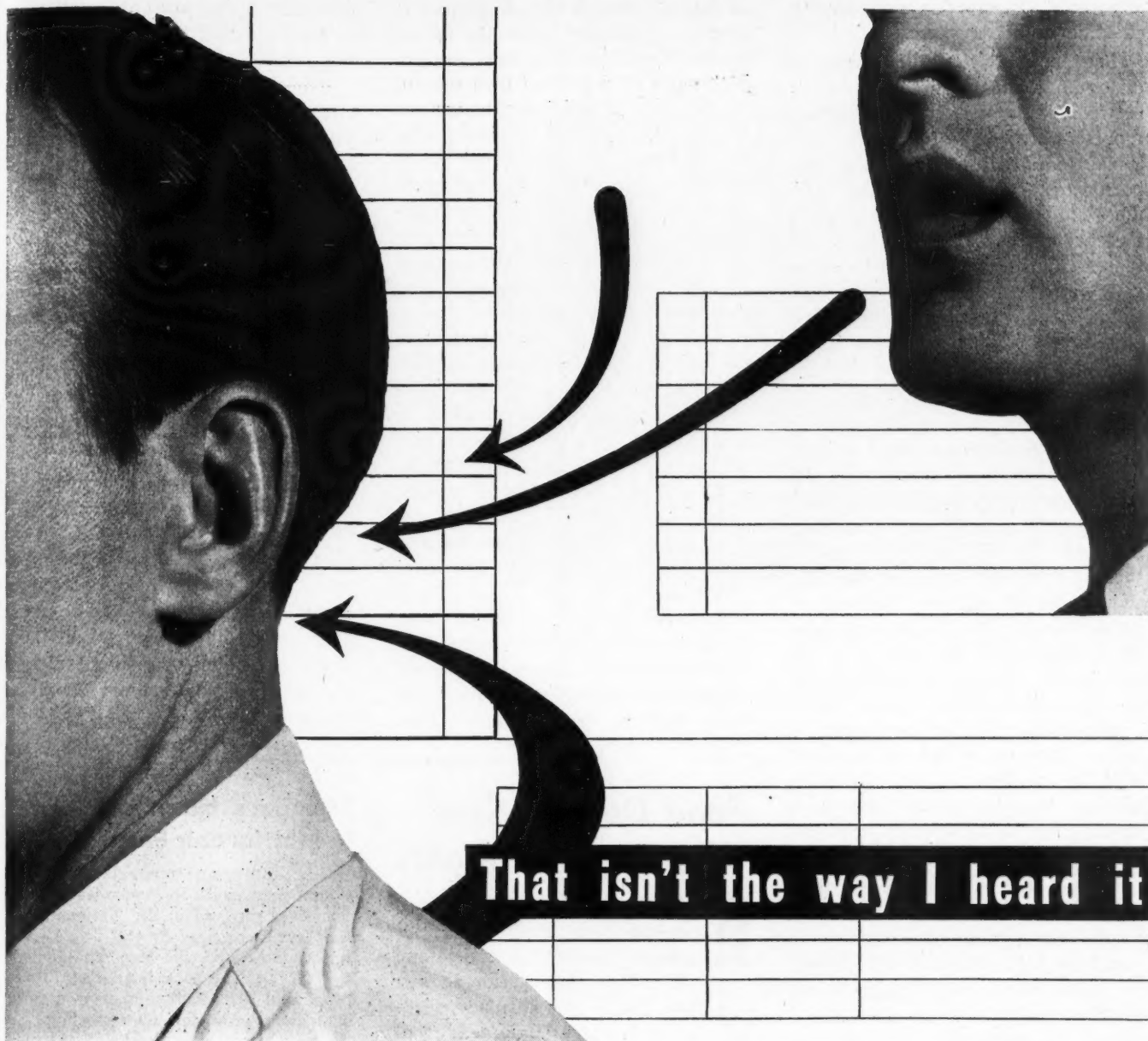
Obviously in large companies the Credit Manager cannot achieve the ends of all these desirable things by personally doing the acts to bring about their accomplishment. He can, however, conceive the objectives, design the plans, and instrument their performance.

In our Company, customer contacts for most all purposes are made by salesmen. They make the sales, in many instances deliver the merchandise, and do most of the collecting. The Credit Manager cooperates on certain large or difficult accounts and has the overall responsibility of planning for and guiding the salesman in those activities that

fall within his jurisdiction. This guidance is accomplished through personal contacts, letters, and manual instructions. There are the customary methods available to the Credit Manager in the performance of his duties. To these we have recently added another which has been so effective in obtaining the desired results for us that we believe the idea may be of interest to others.

Recognizing the widespread use of visomatics and moving pictures in educational work and knowing that visual impressions are more clearly understood and are longer retained than the spoken word, we decided to adapt this procedure to credit training. Pictures alone would not suffice, hence they must be accompanied by proper explanation of procedure and "know how." Moving pictures were ruled out, as movement itself attracts attention to the exclusion of the message that is desired to be put over, so a visomatic was decided upon as best suited for the purpose. To produce the visomatic, a script had to be written, illustrative pictures taken, and a sound track made to synchronize with the pictures.

In order that the job might be complete and reasonably permanent in its use, we decided to write a book covering the most frequently recurring credit and sales problems affecting our Marketing operations and use it as a basis for the script for the visomatic. The result was a book entitled "What Would You Say?" dealing with various problems that perplex a salesman, such as how to get a financial statement from a reluctant customer; how to make a collection approach; how to convert a credit customer to cash; how to obtain credit information from a customer you know person-



**I**N BUSINESS, nothing travels so fast as a mistake.

Millions of dollars a year are wasted catching up with instructions not understood, orders misdirected, carbons too faint, reports filled out incorrectly.

Time and time again a high percentage of this waste could be avoided by business forms custom-built to a business and its needs!

The nine companies listed below have long been under Moore owner-

ship. Now they combine under the Moore name, to form the largest company of its kind in the world. They offer business large and small *an unequaled fund of experience to break the bottleneck of human error.*

Is this form necessary? asks the Moore specialist. Can it be combined with another? Is it functionally a part of the entire business system? Does it include all the economies and time-saving devices found practical in

related fields? Moore finds out, recommends changes, and prints the forms in lots of hundreds or millions.

A Moore specialist in your own field is ready to call on you now. He brings initiative and hard-headed business sense to your problems — whether you are a small store or a many-branched corporation. For immediate information, get in touch with the Headquarters of your nearest Moore division, as listed below, or its local office.

AMERICAN SALES BOOK CO., INC., NIAGARA FALLS; ELMIRA, N. Y.  
 PACIFIC MANIFOLDING BOOK CO., INC., EMERYVILLE; LOS ANGELES, CALIF.  
 GILMAN FANFOLD CORP., NIAGARA FALLS, N. Y.  
 COSBY-WIRTH MANIFOLD BOOK CO., MINNEAPOLIS, MINN.  
 MOORE RESEARCH & SERVICE CO., INC., NIAGARA FALLS, N. Y.  
 SOUTHERN BUSINESS SYSTEMS, INC., ORLANDO, FLA.

In Canada—Moore Business Forms, Ltd., succeeding Burt Business Forms, Ltd., Toronto;  
 Western Sales Book Co., Ltd., Winnipeg and Vancouver;  
 National Sales Check Book Co., Ltd., Montreal

**MOORE BUSINESS FORMS, INC.**

ADV. BY M. W. AYE

ally; how to convert a slow paying customer to 30 days, etc.

The book was written entirely in dialogue simulating conversations between customers and Company representatives. We found the dialogue treatment offered unusual opportunities for credit education. To illustrate various points we secured the services of an outstanding cartoonist, and the book contains thirty cleverly drawn illustrations. The demand has been such that a second edition of the book is now being printed.

Our purpose was to face the salesman with that important question of What Would You Say? to customers in order to accomplish the many clearly defined sales and credit objectives of our Company. Further, we not only faced him with the question, but in both book and sound film we followed through in detail many of the difficult situations he encounters as he talks with his customers. We fully realized that the application of any credit policy rested finally with the representative of the Company who actually talked with the customer. Also, that what he says in these conversations has a direct effect on customer relations and profitable selling.

We decided to limit the length of the sound film to thirty minutes, and as the entire contents of the book could not be covered in that period, we chose for the script the most important subjects in the book. To create an interesting, fast-moving result, the sound film was made from 156 scenes. The pictures for these scenes, depicting realistic credit and sales situations encountered in our daily work, were taken at the places of business of some of our customers. Services of professional Hollywood movie actors were obtained for all of the scenes, which are illustrative of the particular problems being presented. These pictures, highlighted by the insertion of several pointed cartoons, appear in the finished result on a 16 mm. film strip.

Our next step was to produce the sound record. To do this we obtained professional radio actors in Hollywood, including many who are nationally known. The eleven voices required were carefully selected to fit the characters being portrayed,

as the success of such a project is largely dependent upon the talent used. The recording was put on both sides of a sixteen inch record.

The records and films, as well as a supply of books, have been placed in the hands of each of our Sales Districts. They have proved of great value to our District Credit Managers, enabling them to offer new and additional assistance to our field representatives on credit, sales, and customer-relation problems.

This project has been of value in present wartime conditions, as it is directing the attention of our sales personnel toward improvement in the handling of this important part of our business. An improved technique in the handling of credits, sales, and customer relations not only produces better results but also the job well done requires less manpower hours.

In looking ahead to postwar times we feel confident this sound film and the book will better prepare our organization to cope with the problems that can be expected. They

will also be of material assistance to the returning service men and in the training of new personnel.

From our experience we are convinced that visual education through sound films can be used to practical advantage in credit work. The response to this approach from the men in our organization who have the responsibility of discussing credits and collections with our customers has been very gratifying. It was this reaction from our field men that prompted us to make the picture available to others. Many firms in other lines of business have had the picture shown to their sales organizations. Also copies of the book have been made available to them.

In addition to the interest shown by other concerns in this new approach to credit education, the project has interested educators. Several universities on the Pacific Coast have adopted the picture and book as a part of their curriculum in their Colleges of Commerce or Schools of Business.

## Food Dealers Seek Vitamin Sales Rights



An action has been started in the New York State Supreme Court by the Food Merchants Association against the State Board of Pharmacy, seeking a declaratory judgment that would permit retail stores other than licensed pharmacies to sell vitamins and vitamin products manufactured and sold as food supplements. The New York Board of Pharmacy recently issued a ruling that under Article 51 of the State Education Laws "All vitamin products in concentrated form such as pills, tablets, capsules and drops are a drug and may be sold at retail only by registered pharmacies." The action filed by the New York Food Merchants Association says:

"It is in the interest of the public that the sale and distribution of food products and food vitamins be free and unrestricted and that the defendant be restrained from creating and obtaining for the pharmaceutical trade a virtual monopoly on the sale and distribution of food vitamins through the State."

## Members Handbook In Multigraph Form

One of the most comprehensive Association year books, for a smaller Association, ever received in the National office was sent in recently by the Triple Cities Association of Credit Men of Binghamton, N. Y. The book is entitled, "Members Hand Book." It presents a platform of ten purposes for the association; a list of officers and directors; a list of committees and their personnel; a roster of membership giving the name of the firm, the representative and the telephone number; and finally a copy of the constitution of the association.

The Members' Hand Book is produced by multigraph in a loose leaf binder and should prove a valuable document for all members of the Triple Cities

## Will Burge Named Credit Manager of Walker-Jamieson

Chicago: Will Burge, formerly of Crane Company in charge of material and equipment procurement, has joined Walker-Jamieson, Inc., radio and electronic distributors at 311 S. Western Avenue, in Chicago, as manager of credits. He comes with a wealth of experience gained through twenty years of experience in the priorities and financial departments of Crane Co. Mr. Burge is one of the original stockholders of Walker-Jamieson, Inc.

## 11% of Soldiers Planning for Own Postwar Business

**EN** According to a report of a survey made by the Information and Education Division of the Army Services Forces, as reported in the January, 1945 issue of *Domestic Commerce* by D'Alton B. Myers, about 11 per cent of the men now in the armed forces have plans for entering business after they come home. This survey, made by contacting twenty thousand enlisted men in the United States and in the two theatres of war, represents a broad cross section of the armed forces. Mr. Myers in his report gives the following interesting information.

"1. Eleven per cent of the men have definite or fairly definite plans to have businesses of their own or to go into business with a relative.

"2. Among the men with definite plans, more than 80 per cent have had experience in the line they expect to enter; 42 per cent have been self-employed.

"3. Nearly half expect to go into retail trade. Service establishments, small manufacturing businesses, and construction or contracting operations figure in the plans of another 25 per cent.

"4. The average initial investment anticipated is small. Most plan to invest not more than \$4,000.00.

"5. Approximately 60 per cent state they will have all or at least half the needed capital.

"6. Their plans for borrowing additional capital are not very clear. About one-sixth stated they plan to borrow from banks and loan companies, and one-tenth from friends. One explanation for this decision is that the GI bill was passed only a few weeks before the survey was made and few men knew of its provisions."

A further point brought out by Mr. Myers in his discussion of this survey is that more than 45 per cent of the men reporting are expecting to enter business in communities of 25,000 population or less and that communities from 2500 up to 25,000 are especially popular. In his article in *Domestic Commerce* Mr. Myers

*Here's Cash for You  
to carry through*

**ANY MOVE THAT'S  
GOOD BUSINESS**

Whether you need thousands or millions, Commercial Credit is ready to help you buy a business, buy out partners, remodel or expand your plant, or finance any other sound business venture . . . Telephone, write or wire the nearest office listed below.

**TAXES CATCH YOUR BUSINESS  
SHORT OF CASH?**

If you need more cash than you can get from present sources, get in touch with Commercial Credit—a quick source of funds that is not restricted by outmoded thinking, rules and customs. Unlike old-line institutions, we're more interested in your profit potentials than in your current posi-

tion. What's more we will not interfere with your management or limit your operations in any way. You can use Commercial Credit money for as long as you need it . . . with no due dates to meet and no demand obligations hanging over your head. For fast action, write, wire or phone.

Commercial Financing Divisions: Baltimore, New York, Chicago, Los Angeles, San Francisco, Portland, Ore.

**COMMERCIAL CREDIT  
COMPANY**

*Capital and Surplus More than \$65,000,000*

**BALTIMORE 2, MD.**

FINANCING OFFICES IN OVER 100 PRINCIPAL CITIES OF UNITED STATES AND CANADA

says "There are more than 500,000 less businesses today than on December 30, 1941. It will be the returning service men and the war workers who will rebuild our business population. Not all who try will succeed. There are bound to be casualties, but can American business and government do less than provide all who will avail themselves of the best type of training and council." He pointed out further that information is now being prepared by the Army and the Department of Commerce to guide those who wish to venture into the field of private enterprise. A series of nineteen booklets pertaining to various lines of endeavor are now in preparation for distribution at the various Veterans Administrative offices.

The New York State Bankers Association has made a careful study of the general problem of

making loans to returning service men. This organization has now issued two special bulletins to its members dealing with loans for the purchase of homes and farms. Another bulletin in process of production has to deal with loans to returning service men for the purchase of businesses under the so-called G.I. Bill of Rights which would enable the banks to secure a guarantee of such loans up to \$2,000.

Other banking organizations are also making careful studies of this important phase of postwar business. As mentioned elsewhere in this issue bankers in localities are all working together as reported from Rochester in providing central information bureau, where returning service men can obtain information about making loans under the G.I. bill.

to the regulation or taxation of such business.

"(B) No act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such act specifically relates to the business of insurance: Provided, that after January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

"Sec. 3. (A) Until January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, and the act of June 19, 1936, known as the Robinson-Patman Anti-Discrimination Act, shall not apply to the business of insurance or to acts in the conduct thereof.

"(B) Nothing contained in this act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

"Sec. 4. Nothing contained in act shall be construed to affect in any manner the application to the business of insurance of the Act of July 5, 1935, as amended, known as the National Labor Relations Act, or the Act of June 25, 1938, as amended, known as the Fair Labor Standards Act of 1938 or the Act of June 5, 1920, known as the Merchant Marine Act, 1920.

"Sec. 5. As used in this act, the term 'State' includes the several States, Alaska, Hawaii, Puerto Rico, and the District of Columbia.

"Sec. 6. If any provision of this act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the act, and the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected."

## Senate and House Conferees Agree on Form of Insurance Moratorium

**CF** On Friday, February 23, the conference committee of the Senate and House agreed on the form of a compromise bill to provide a moratorium on the application of the Sherman and Clayton Anti-Trust Acts, the Federal Trade Commission Act and the Robinson-Patman Act to the business of insurance until January 1, 1948.

As finally agreed upon, the conference bill provides that after January 1, 1948, these federal trade regulations statutes shall apply to the insurance business "to the extent that such business is not regulated by State law."

As first introduced under the Senate bill (S. 340) the bill provides for permanent exemption of insurance from these federal trade regulation laws. However, after the conference between the representatives of the House and Senate, these features were written into the bill.

After the report of the conference, the House adopted the measure by a voice vote on February 23. It had been expected that the conference report would be adopted in the Senate on February 26. However, because of the objection of

Senator Pepper of Florida the conference report had to take its place on the regular calendar and was expected to reach a vote in the Senate early in March.

Reports from Washington indicate that the bill as finally passed by the House and reported to the Senate have been given a formal O.K. by the Department of Justice, and backers of the measure indicated that the President had given his informal O.K. on it.

The text of the bill as passed by the House and sent over to the Senate for action is as follows:

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that the Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.

"Sec. 2 (A) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate

## Par Clearance Drive In Texas Backed by Credit Associations

Dallas: An organization known as "Advocates of Par Clearance in Texas" is circularizing all the merchants, manufacturers, jobbers and bankers in the state with a series of quite convincing pamphlets which discuss the par and non-par collection systems. One circular is entitled "How the Check You Deposit Clears." Another one is "Service Charge versus Exchange Charge, Should You Pay Both of

Them?" Another one is headed "Facts About Check Clipping" which points out that Texas still has 81 banks which are not clearing checks at par. The last pamphlet has for its theme "Your Government Demands Payment at Par; Can You?"

The campaign for par clearance in Texas is being pushed by the following organizations: Austin, Dallas, Fort Worth, Houston, San Antonio, El Paso, Amarillo, Waco, and Legislative Committee of Associated Retail Credit Men of Texas, and Legislative Committee of Associated Retail Merchants Association of Texas.

## 3 New Regulations On War Terminations

Those facing possible Contract Termination should obtain copies of Regulations Nos. 10, 11 and 12 from their Contract Procurement Agencies.

Regulation No. 10 sets forth principles governing clearance of inventory after termination. This regulation is of special importance to those carrying large inventories against future contracts.

Regulation No. 11 covers the authorization to war contractors under certain circumstances to destroy records.

Regulation No. 12 covers claims for relief under section No. 17.

## NEW Booms and Depressions Chart Just Issued



## FREE to Credit Executives ... Mail Coupon Now

45 INCHES LONG, with graphs in 7 colors, this new chart gives you a clear picture of "Business Booms and Depressions Since 1775." It traces 169 years of ups and downs in Business Volume, National Income, Federal Debt, Commodity Prices, Stocks and Bonds. It shows the recurring pattern of Prosperity and Depression... Inflation and Deflation... during and after each war since the Revolution.

**WILL HISTORY REPEAT?** Will credit losses mount again as they did after World War I? No one knows... but why take chances. American Credit Insurance offers you positive protection against credit worries and losses... **GUARANTEES PAYMENT** of accounts receivable for goods shipped... now and in the unpredictable years ahead. Mail coupon for Booms and Depressions Chart... now.

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Without obligation on my part, please send me:

- ☐ Your new chart, "Booms and Depressions since 1775."
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PRESIDENT

## AMERICAN CREDIT INSURANCE

*Pays you when  
your customers can't*

OFFICES IN PRINCIPAL CITIES OF UNITED STATES AND CANADA

# Helping the G. I. Joes

## Business Counsellor to Ex-Service Men is Needed

By **T. M. FOLEY, Credit Manager**  
Elder Manufacturing Co., St. Louis

**T**he problem as to how best to serve G. I. Joes as they return from their battle assignments and seek to establish themselves in business, is one of the most important now facing credit executives. It is our imperative duty to do everything we possibly can to help and guide the G. I. Joes in their ventures in business. Instead of looking with suspicion at these ex-soldier merchants, we credit men should do everything possible to find a way to ship goods to the G. I. Joe who comes to us for merchandise with which to stock his new store.

In the first place we owe a great debt to these returning service men. We can all do something to repay that debt if we will go out of our way to give him the benefit of our experience and to guide him until he gets well established in his new business. In the November issue of **CREDIT AND FINANCIAL MANAGEMENT**, Henry H. Heimann, our Executive Manager, pointed out that Character and Capacity counted most in evaluating these G. I. Joes as our prospective customers. It is my theory that given an ambitious, self-reliant ex-service man as a prospective customer, that it is up to us as credit men to see to it that he has the proper guidance in gaining his experience.

Handling the G. I. Joe accounts is quite similar to what we have always done with new accounts. It has been our practice for years to keep constantly in touch with new accounts to be sure that they do not get out of line in the operation of their businesses. If they overbuy, that can be easily detected. If they are not making a sufficient profit, that difficulty may be spotted at once. If their expenses are out of

line with the total of sales, we readily find that difficulty.

When a G. I. Joe comes to us for help in establishing himself in business, I tell him that the only thing a merchant has to do to succeed is to sell his merchandise at a profit. If he makes a turnover of his inventory fast enough and at the proper markup, and if his ratio of expense to his gross sales is in the proper proportion, then he is sure to succeed.

When the G. I. Joe comes to us we should first discuss with him the location of his store; what is the potential of his trade; how large an inventory he should have to meet the requirements of his trade; how much rent he should pay; what books he must keep to be sure that he knows just how his business is progressing; how he must watch his own credits so that his capital is not devoured in accounts owing to him by his customers. We should counsel him on advertising expenditures, store fixtures, window displays. If we provided every G. I. Joe who came to us for merchandise with a printed handbook covering all of these important factors we would find such a service paying big dividends in the future.

Getting back to the profit formula mentioned above—proper turnover, right markup and expense regulation—here are some pertinent examples of how this formula works: SPUR, TEXAS, Inventory 1/1/45

Assets	
Merchandise .....	\$15,792.05
Cash .....	8,353.85
Defense Bonds .....	5,043.75
Tax .....	834.46
	<hr/>
	\$30,024.11

Liabilities	
Investment .....	\$ 5,000.00
Profits .....	25,024.11
Accounts Payable.....	None
Bills .....	None

	<hr/>	\$30,024.11
Sales .....		\$59,748.65
Gross Profit.....		17,912.32
Expense .....		13,784.17

Making a comparison with the three things necessary for success this comparison is as follows:

Successful merchants	
turnover .....	3
Spur, Texas, turnover....	2.7
Successful merchants	
gross profit.....	33 1/3%
Spur, Texas, gross profit.	30%
Successful merchants ex-	
pense .....	25%
Spur, Texas, expense....	23%

Here is another example from Monmouth, Ill., Inventory 1/1/45

Assets	
Merchandise at cost.....	\$13,067.19
Fixtures .....	400.00
Book accounts .....	1,212.07
Notes .....	None
Cash in bank:	
Second National.....	241.69
Residence .....	5,000.00

	\$19,920.95
Liabilities	
Amount past due.....	None
Amount not due.....	\$2,716.54
Owing Second National.	1,350.00
Owing on real estate....	3,770.40
Owing on salaries (ac-	
crued) .....	400.00

	<hr/>	\$8,236.94
Net Worth.....		\$11,684.01
Sales .....		\$39,912.03
Gross Profit.....		13,120.58
Expense .....		10,340.86
Net Profit.....		2,779.72
In comparing these figures with those of the successful merchants		

the comparison is as follows:

Successful merchants turn- over .....	3
Monmouth, Ill., turnover..	2
Successful merchants gross profit.....	33 1/3%
Monmouth, Ill., gross profit .....	33%
Successful merchants ex- pense .....	25%
Monmouth, Ill., expense..	26%

Studying this comparison, one can readily see the operations of this business are nearly perfect. In ordinary times this merchant's inventory, to get the three times turnover, should be about \$10,000 instead of \$13,000 and in that case he would owe \$3,000 less for merchandise or he would owe nothing at all for merchandise. Wouldn't that be a grand and glorious feeling? I am always encouraging our customers to try to operate along these lines.

There are two reasons to be slow pay, one is when a merchant starts with insufficient capital and many a G. I. Joe may do that. If they do and adhere strictly to the three things above mentioned they should come out on top. They will be slow until they add to their capital by profits from the business and during this period of time is where the credit man can be a real help by understanding the condition of his account and on every occasion helping out. A physician prescribes the proper medicine after he examines his patient, and the credit man should be the business physician for every G. I. Joe he sells, understanding that help is needed where there is insufficient capital and in case the account is reported slow pay 30, 60, or 90 days, that should not bother him in the least, if he intends to help that G. I. Joe.

The other reason for being slow pay is when the G. I. Joe starts with sufficient capital and then overbuys.

I prefer to do business with the under capitalized G. I. Joe. He is not half as dangerous as the G. I. Joe who overbuys. In case you want to find out at any time about the paying methods of these accounts get a Credit Interchange report.

If you study statements as above explained you can determine from

the study the character of that merchant whom you are serving. Take the expense item of 25% of Gross Sales. Spending that much means fairly decent wages to the help. If that merchant spends only 17% or 18% instead of 25% you can see he does not care how his fellow man makes his living and his character, therefore, is not what one would expect in a successful merchant. If he had to make money by paying salaries entirely out of proportion to

what he himself makes, then character in that man is surely missing.

This company will help every returning service man who goes in business.

#### Round Table at Worcester

Worcester: The January 8 meeting of the Worcester County Association of Credit Men featured a round table discussion on various credit problems. Members were requested to send in their questions in advance and other members were appointed to speak on the questions presented.



## Highlights in Insurance History

Back in 215 B.C., the Roman Empire had a problem similar to some we have today—the speedy delivery of food, clothing and wages to their soldiers and their allies fighting under Scipio in Spain. Three trading companies agreed to take the risk provided the State would bear any losses arising from storms or enemies' attacks. This early form of insurance made the war deliveries possible.

Today, insurance in all its modern forms stands back of the production and delivery of the supplies needed by our armies in foreign countries. The NATIONAL UNION and BIRMINGHAM FIRE INSURANCE COMPANIES, during war or peace, offer "the last word" in modern, well tested insurance protection.

## National Union and Birmingham

FIRE INSURANCE COMPANIES

PITTSBURGH



PENNSYLVANIA

# TIMING

## fills the game bag

*The successful hunter knows when to keep low in the blind—when to “pull down” on his quarry—when to press the trigger. That’s “timing.”*



**T**iming is important in the operation of the Credit Department. Answering inquiries promptly is timing. It enables you and other interested creditors to obtain *correct and up-to-date information at the right time*. It aids in assembling and disseminating this information quickly—in time to be of real service.

Correct timing creates good will and confidence. It contributes to the “life” of the customer by helping him keep his business in good financial health—his inventories in line with his needs—his own credit record clean.

See to it that *all* of your customers are registered with your Credit Interchange Bureau. Look to Credit Interchange Automatic Revision and Signal Service to give you the information needed in timing your customers. Then you can be certain that your timing is right.

★ ★ ★

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than 50 principal  
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*Ask any unit of our nationwide system how  
you can register your accounts at nominal  
cost—or write*

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**1154 Paul Brown Building ST. LOUIS 1, MO.**

# NEWS ABOUT CREDIT MATTERS

A section devoted to  
Credit Association affairs

March, 1945

Copy deadline  
10th of Month

## Power of Advertising to Win Foreign Trade is Told to Chicagoans

Chicago: The foreign trade group of the Chicago Association of Credit Men listened to a discussion of foreign advertising at the regular monthly luncheon at the Chicago Real Estate Board private dining room Thursday, February 15. Joseph A. Jones, vice president of Irwin Vladimir & Co., of Illinois, Inc., spoke on "The Power of Export Advertising." Mr. Jones for several years was manager of the Detroit Export Department of the Automobile Manufacturers Association and until recently was with the Export Advertising Division of the Office of Inter-American Affairs at Washington.

Raul Capurro, president of Capurro y Cia., Montevideo, Uruguay, spoke on "The Outlook for Sales of United States Goods in Uruguay." He is the head of one of the leading advertising agencies in Uruguay, is managing director of Mundo Uruguay, the leading national weekly of Uruguay and is also president of one of the largest cereal manufacturing companies in Uruguay.

The annual ladies' night dinner of the group will be held at the Merchants and Manufacturers Club in the Merchandise Mart, Friday evening, March 23.

## D. A. Weir Speaks at Annual Meeting of Alabama Association

Birmingham: David A. Weir, Secretary and Assistant Executive Manager of the National Association of Credit Men, was the guest speaker at the annual meeting and dinner of the Alabama Association of Credit Men at the annual election which preceded the dinner. E. W. Strange, Lone Star Cement Co., was elected president, W. L. Knowlton, McKesson-Robbins, Inc., Vice-President, and M. E. Wiggins, Alabama Power Company, Treasurer of the Alabama Association of Credit Men. Mr. Strange has been Southern Division Manager of the central Cement Group for several years.

## Federal Court of Appeals Upholds Purchases to Keep Hotel "Going"

### Three Founders are Present at New York's 50th Anniversary

New York: New York Credit Men's Association marked its Fiftieth Anniversary with a sell out dinner meeting held at the Hotel Commodore on February 6. Three of the founders of the New York Association were present. They were Charles E. Meek, a former national president, Joseph Sinsheimer now retired, who was with Roth & Goldschmidt, and also William A. Prendergast, who was the first Secretary of the New York Association fifty years ago. Captain Edward Rickenbacker and news commentator John B. Kennedy were the after dinner speakers. In a short address made by Robert L. Simpson of New Orleans, our National President congratulated the New York Credit Men's Association on the fifty year activity in promoting the credit ethics and practices of the nation.

### Advisory Committee to Aid Veterans is Named in Chicago

Chicago: An advisory committee to aid discharged service men on problems of setting up in business for themselves has been announced by C. L. Holman, Wilson Brothers, president of The Chicago Association of Credit Men. The plan was formulated after several months of study not only for the Chicago Association but also in co-operation with the other Association members of NACM.

J. W. Heylman, New Jersey Zinc Sales Company, is chairman of the committee and co-operating vice chairmen ex-officio are: Charles G. Beck, manager of the U. S. Veterans Administration, Chicago, Lester R. Benston, director of rehabilitation for the American Legion and John P. Flannagan, department service officer for the Veterans of Foreign Wars.

**C**redit men have sometimes been faced with the problem of filling orders placed by a Trustee. The rules of law are quite distinct in cases in Bankruptcy court where the Receiver and Trustee are operating a business during reorganization proceedings or where it is important to maintain a business on a "going" basis. In a case decided on Jan. 5, 1945 (Dudley vs. Mealey), by the United States Circuit Court of Appeals for the Second Circuit, the court held that purchases made by a Trustee to maintain a hotel as a "going business" should be given priority over other claims.

Mr. W. Randolph Montgomery, of counsel for the National Association of Credit Men, reports this ruling as follows:

"The appeal was from an order of the United States District Court for the Northern District of New York approving a plan of reorganization of the Albany Hotel Corporation under Chapter X of the Bankruptcy Act.

"The plan, as approved by the District Court, gave priority to the unsecured creditors who furnished supplies to the hotel for a short time before a receiver was appointed in foreclosure proceedings. An objection was filed to this feature of the plan. The trustee answered the objection by stating that these debts were recent; that the supplies were necessary to keep the hotel going, and that the 'six months' rule,' applicable to railroads and other public service companies, applied.

"The Circuit Court of Appeals

(Continued on Page 36)

## Henry H. Heimann Is Speaker at Detroit; Women as Sponsors

Detroit: The Credit Women's Club of the Detroit Association sponsored the February 20 meeting of the association held at the Statler Hotel.

Henry H. Heimann, Executive Manager National Association of Credit Men was the after dinner speaker, his subject being "Postwar Problems of Business. During his talk Mr. Heimann outlined a number of points on which credit executives must be especially alert in the postwar era.

This was one of the largest dinner meetings held by the Detroit association in several months.

## Four Lectures on Management Will Be Held by N.Y. Chapter

New York: The Credit Education Committee of this Association has arranged an outstanding and interesting Seminar for senior credit men on the subject of "Management." Four lectures will be given, beginning on March 22nd, by outstanding authorities who will cover personnel management, Federal laws affecting employee relations, management in the postwar economy, and changes in tax laws affecting management.

E. L. Siggins, Assistant to Director of Personnel Relations, General Motors Acceptance Corp., E. L. Van Houten, Vice President, Standard Coated Products Corp., and A. Louis Oresman of Aronson & Oresman, C.P.A., will be the lecturers. Admission is restricted to seventy-five senior credit executives because of limited capacity of the meeting rooms. These Senior Seminars are presented annually by the Association in conjunction with the National Institute of Credit, New York Chapter.

L. B. Wilson of National Carbon Co., Inc., is Chairman of the Credit Education Committee which has arranged the program.

## Comb Queens County For NACM Members

New York: Queens County, (Northwestern Long Island) under the leadership of Arthur H. Mader of American Chicle Co., Chairman of the Queens Credit Club, is being intensively covered from a membership standpoint. Queens County is Greater New York's fastest growing business section and the war has given impetus to the location of many important plants and business organizations in that section. Earl N. Felio, General Membership Chairman, is aiding in this campaign.

## Eighty-one Firms Now Members of Adjustment Bureau in New York

Since the New York Credit Men's Adjustment Bureau, Inc., was set up as a separate membership corporation less than a year ago on a sustained basis, eighty-one firms have become subscribers and contributors to the upkeep of this important function, with the idea of maintaining the experienced personnel for use in the postwar period.

Despite the well known lull in business troubles, H. P. Reader of Cannon Mills, Inc., President of the Bureau, and his Board of Directors, keep a close tab on trends and the Bureau will be ready for the handling of such business adjustments as may be occasioned by the termination of the European part of the war.

## Food Group to Study State Laws to Aid Returning GI Joes

New York: With various states adopting individual laws for the assistance of discharged veterans (New Jersey has one on its books and New York has recently introduced another), the Postwar Guidance Committee of the Food Distributors Group, headed by C. A. Maguire of Francis H. Leggett & Co., has been assigned the task of keeping abreast of these individual laws so that the members of this Group may be constantly and fully advised of terms and conditions surrounding these laws and the relation which these state laws bear to the Federal Act.

## A. D. Johnson Points to Credit's Place in Sales

Los Angeles: In the January issue of the Southwestern Purchasing Agent A. D. Johnson, Secretary-Manager of the Los Angeles Credit Managers' Association has an excellent article on purchasing, sales, and credit. In concluding his article Mr. Johnson points out: "History is replete with success attained through cooperation." The "Three Guardsmen" Tinker to Evers to Chance, "The Four Horsemen of Notre Dame," and last but not least, our Army, Navy and Air Corps. Business of tomorrow will be challenged to provide more employment than ever before. Complete cooperation will be necessary to meet that challenge. So let us do all we can to develop the unity of the business trio—"Purchasing, Sales and Credit."

## Toledo Zebras in Roundup

Toledo: The Toledo Herd No. 22, Royal Order of Zebras, held its regular business meeting in the American Room, Secor Hotel, on February 9. Arrangements for the meeting and party which followed were under the direction of Past Exalted Super Zeb Herb Page.

## New York Credit Men Study Bills Before Albany Legislature

New York: As the New York Legislature is now in session the Association's Legislative, Tax and Insurance Committees have been reviewing a number of bills introduced and will endeavor to arrive at some decision concerning them. This year a program has been worked out by which the chairman and vice-chairman of these three committees meet as sort of an informal executive committee to comb through the bills introduced, so that over-lapping of interest is eliminated and an understanding reached between Committees where bills contain a dual interest.

Among the bills being studied are a large number to amend the Workmen's Compensation practice in the state, merit rating covering unemployment insurance, reduction of state taxes, etc. In this work, close contact is maintained with the central legislative committee made up of representatives of the upstate Associations. This Committee is headed by Irwin H. Raunick of The Fairmount Creamery, Buffalo, N. Y., and through this exchange of information, uniformity of purpose of all Associations in the state is achieved.

## Construction Machine Makers Confer for 2 Days at Chicago Meet

Chicago: Subjects of great importance to the construction machinery industry were discussed at the two-day Mid-Winter Conference of the National Construction Machinery Credit Group at the Drake Hotel, Chicago, February 21 and 22.

With Chairman Oscar Held, Sterling Motor Truck Company, Milwaukee, presiding, the entire morning of the first day was taken up with reports of committees and a discussion of accounts.

In the afternoon, the members first enjoyed a fine motion picture in technicolor, "The Amazon Awakens." Then E. B. Moran, manager of the Central District of the National Association of Credit Men, spoke on "Credit Problems in V-E Days." A panel discussion was conducted by A. L. Lambie, Blaw-Knox Company, Pittsburgh, Orin J. Greiwe, Lima Locomotive Works, Lima, O., and Fred L. Squires, Link-Belt Speeder Corporation, Chicago.

At the Friday morning session, E. W. Butler, the Jaeger Machine Company, Columbus O., spoke on "The Tax Aspect of Rental Equipment." Then followed the election of officers, an open forum conducted by Chairman Held and a talk on, "The Credit Executive's Relation to Sales." There was a luncheon at noon and the afternoon was devoted to a general discussion of business conditions.

## New York Women to Seek \$2300 Fund in Red Cross Drive

At the February meeting, the New York Credit Women's Group launched its annual Red Cross drive with high hopes of topping last year's figures, which were approximately \$2,300,000.

The members enthusiastically accepted the chance books and also the announcement that the two bonds to be given as prizes were donated from the Group's Treasury.

Miss Ida Hill, president, gave a report of the dinner held by the Traffic Women's Club of New York. She was one of the guest speakers, and was encouraged to learn of their interest in the Credit Women's educational program. In fact, they may pattern their procedure along similar lines.

Miss Lillian Guth, Chairman of the National Credit Women's Executive Committee, spoke about the membership drive and exhorted the Group to continue their work in this direction.

A round of applause greeted the announcement that the Bridgeport Credit Group is making great headway, and it was decided to invite their officers to the March meeting in New York City.

The guest speaker, Dr. Israel Strauss of the Hillside Hospital, spoke about the modern treatment of neuropsychosis, and explained the strides made in rehabilitating the temporarily handicapped service men.

Cincinnati: Twenty credit women braved near zero weather to attend the meeting of the Credit Women's Group on February 1st.

The meeting was held in the Credit Club Room of the Hotel Sinton presided over by Miss Ruth Hunt of the Union Iron & Steel Co. There was no speaker but those in attendance presented present day credit problems and there was interesting discussions on these problems.

The hostesses were Mrs. Ethel McCabe and Miss Frances Hull. The March meeting will be held Thursday, March 1.

Los Angeles: In line with other Credit Women's Clubs functioning throughout the nation, the Credit Women's Club of Los Angeles devoted its January meeting to the topic of "Know Your Association." Mr. Johnson, Secretary of the Los Angeles Credit Managers' Association, being the logical man to put over that information to the membership, was prevailed upon to take over the meeting, giving a thorough discussion on the different functions of the Association, and explaining many things that otherwise are only vaguely understood by the membership. This meeting was well attended and keen interest exhibited.

Seattle: The Seattle Credit Women's Club held its regular monthly dinner at 6:15 o'clock Monday evening February

12th. Rev. Perry E. Gresham, (Pastor of University Christian Church) spoke on "The Wit and Wisdom of Abraham Lincoln." There also was exceptional entertainment.

Binghamton: Jules Livingston, sales and direct advertising expert, was the speaker at the February 21 meeting of the Triple Cities Credit Women's Club. He spoke especially on the importance of credit and collection letters. A question and answer period which followed the address proved quite informative.

St. Louis: The Credit Women's Club of St. Louis sponsored the February Forum Meeting of the St. Louis Association held on February 8. The principal speaker at this meeting was Miss Mary A. Hickey, principal of the Training School for secretaries. Miss Hickey spoke on "Personnel Problems of the War and Postwar Period." Miss Hickey was honored last July by election to the presidency of the National Federation of Business and Professional Women's Clubs.

Chicago: "Boners' Schoolroom," a comedy skit, was greatly enjoyed at the annual Valentine party of the Credit Women's Club of Chicago in the ball room of the Lawson Y.M.C.A., Tuesday, evening, February 13, following a dinner. The presentation was under the direction of Helen Wyllie, who has had charge of several other dramatic entertainments by the club in the past. The cast of characters was: Ann Renick, Mary Ann Atwood, Phyllis Staber, Carrie Grae, Gloria Gecan, Eleanor Sullivan and Marjorie Stomberg.

Minneapolis: E. C. Vorlander, general credit manager of Minneapolis-Honeywell Regulator Company, addressed the Minneapolis Wholesale Credit Women's Club at the February 13 meeting. Mr. Vorlander, former President and now Councilor for the Minneapolis Association of Credit Men, spoke on "60,000,000 jobs." As another feature of "Know Your Association," Miss Blanche M. Scanlon, Nash Coffee Company, gave a brief talk.

Denver: The regular February business meeting of the Denver Credit Women's Group was held on Monday, February 19, 1945, at Daniels and Fisher's Tearoom. The guest speaker was Mrs. L. Allen Beck, Executive Secretary of the Citizens for Victory. Mrs. Beck gave a very interesting and timely talk on the Bretton-Woods Plan. The Nominating Committee report was heard, and election of officers will be held in March.

Cleveland: The February meeting of the club was held on the 13th at the Carter Hotel and two of the members of the club were the speakers of the evening. Miss Kathryn Sirc spoke on "Post War Financing" and Miss Elsie Daly spoke on "Credit in Exporting." The talk stimulated some round-table discussion which added to the value of the meeting.

**THERE'S SOMETHING ABOUT A BURROUGHS RIBBON THAT MAKES MY TYPING NEATER**



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Burroughs' intimate knowledge of business machines in action established the exacting specifications of quality which characterize Burroughs supplies for all types and makes of business machines. The next time you need ribbons, carbon paper or roll paper, call your local Burroughs office. Ask for details on Burroughs Discount Purchase Plans which provide savings of 10% to 40% on your quantity purchases.

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## New York Credit Men Seek Complete Cover in Insurance Policy

New York: The Association's Insurance Committee has appointed a sub-committee to look into the subject of multiple coverage, with the aim of fostering the idea of complete coverage under one policy on materials from their raw state to the finished, delivered product—as against the present system of a diversified series of policies. It is the aim of the Insurance Committee to further the idea of covering every known contingency and possible lapses in coverage, with a minimum number of separate policies.

In order to determine the extent of interest by credit men in the subject of insurance, and looking toward the dissemination of more information on this subject credit-wise, the Association's Insurance Committee has prepared a questionnaire which is going forward to all Association members to determine how many would be willing to attend a forum to be sponsored by the New York Credit Men's Association. The plan is to present a panel of insurance experts who will present important phases of commercial insurance and answer questions presented prior to the forum in writing, and spontaneously at the forum session. The holding of the forum will be determined upon the number of replies received.

William G. Betsch of William Iselin & Co., Inc., and A. L. Carr of National Surety Corp., are Chairman and Vice-Chairman respectively of the Association's Insurance Committee which is making this questionnaire survey.

## Ex Governor Holland Asks Tax Commission

Tampa: Hon. Spessard L. Holland, who retired on January 1 as Florida's governor, addressed the annual meeting of the Tampa Association of Credit Men on February 15. This was the Thirtieth Annual Dinner of the association and drew almost one hundred per cent attendance of the membership. Ex-Governor Holland's address was based on Florida's tax situation and recommended a federal tax commission to help coordinate the tax situation between the state and federal government.

## P. M. Millions Talks on Taxes at Baltimore

Baltimore: Paul M. Millions, Vice-President, Commercial Credit Corporation was the speaker at the January 23 meeting of the Baltimore Association of Credit Men. This was one of the largest meetings of the local association in several months.

Mr. Millions discussed federal debt and what plans must be undertaken to service the debt and thus replace the wealth destroyed during world war number two.

Tacoma: On March 1 G. G. Whipple severed his connection as Secretary of the Tacoma Association of Credit Men to take up new duties as Credit Manager of the Plant Rubber & Asbestos Works of The Paraffine Companies in San Francisco. He will operate as Assistant General Credit Manager of The Paraffine Companies as assistant to Owen Dibbern former manager of the Western division of NACM. Mr. Whipple has been associated with the Tacoma Association for the past three years.

## Cincinnati Chapter Starts on 2nd Semester

Cincinnati: The Cincinnati Chapter of the National Institute of Credit in cooperation with the evening college of the University of Cincinnati started the second semester early in February.

The class is on Construction and Analysis of Financial Statements. Twenty students have signed up with the possibility of a few more coming in next week.

Grades have been sent to the National Institute of Credit for the fifteen students who completed the work last week in Credits and Collections. The officers of the Cincinnati Chapter of the National Institute of Credit are: Pres. David Hamilton—Hamilton Tlg. Co. 1. V-Pres. Miss Hazel Luichinger—Williamson Heater Co. 2. V-Pres. Harold F. Friedrich—Queen City Paper Co. Recording Sec'y. Miss Clara Oberjohn—Kelley-Koett Mfg. Co.

## Broadcaster Puts on Show before Forum at Chicago Association

Chicago: More than 500 members and guests of The Chicago Association of Credit Men enjoyed a rare treat at the regular monthly Forum of the Association in the Century Room of the La Salle Hotel, Wednesday evening, February 7. Captain Michael Fielding, noted radio commentator, military authority, world traveler and outstanding analyst of world affairs, spoke on "The War as I See It."

Captain Fielding first presented an intimate view of the war situation up to the present moment. He then gave his regular Wednesday night broadcast over Station WIND, "War News Decensored," and this proved a most attractive part of the program. Captain Fielding makes 15 broadcasts a week over leading network stations, including WIND, WBBM, WENR and WGN.

Following the broadcast, Captain Fielding answered many questions from the audience as to his opinion of war and postwar events.

## NIC Alumni See Films About Bogus Currency and Checks

New York: The Alumni Association of the New York Chapter, National Institute of Credit held a dinner meeting at the Hotel Martinique on January 16. Despite the inclement weather the meeting was well attended.

Mr. Raymond Hough, Executive Secretary of the New York Credit Men's Association attended as a guest, as did Mr. M. Lipson and Mr. Bonelly of the U. S. Secret Service of the Treasury Department.

After dinner Mr. Lipson assisted by Mr. Bonelly delivered a most interesting talk on counterfeit money and forging of government checks. Two motion pictures in Technicolor entitled "Doubtful Dollars" and "Check and Double Check" were shown and handled the subject in a most efficient manner.

All who attended agreed it was an evening well spent.

## William E. Hoerger Is Adjustment Head at Chicago Association

Chicago: William E. Hoerger has been appointed manager of the Adjustment Bureau of The Chicago Association of Credit Men's Service Corporation. Mr. Hoerger is well qualified for the position which makes this valuable service available to all members of the Association.

The 7th annual conference of the Midwest Food Manufacturers and Manufacturing Confectioners Credit Group which was scheduled to be held at the Stevens Hotel, Chicago, Friday, February 9, was indefinitely postponed.

Captain Henry H. Heiman, Executive Manager of the National Association of Credit Men, will be the speaker at the regular monthly Forum of The Chicago Association of Credit Men in the Century Room of the La Salle Hotel, Wednesday evening, March 7.

## Elizabeth Chapter Is Fostered by Jerseyites

Newark: The New Jersey Association of Credit Men is fostering a chapter of credit executives residing in Union County. The first meeting of this group was held on February 13 at Hotel Elizabeth Carteret. At this meeting plans were adopted for a continuation of such meetings of the members of the New Jersey Association residing in Union County.

On Tuesday evening, February 27, C. Oliver Wellington, a former president of the American Institute of Accountants spoke before the New Jersey association on the general subject "What Every Business Man Wants to Know."

# Paper Packagers at Credit Conference at Chicago, February 15

Chicago: The First National paper packaging credit group conference was held at the Morrison Hotel, Chicago, February 15 with Emmett W. Below, Marathon Paper Corp., Menasha, Wis., as chairman. Mr. Below presented the report of the organization committee.

Under the general subject, "Packaging for Government Products," the following speakers presented various factors to be considered:

"Direct Sales to Government Agencies," Thomas W. Peck, Kalamazoo Vegetable Parchment Co., Kalamazoo, Mich.

"Sales to Prime Contractors," Max W. Mellin, Milprint, Inc., Milwaukee.

"Sales to Sub-contractors," G. J. Christiansen, Hummel and Downing Co., Milwaukee.

The open forum for a discussion of the subject was conducted by Dan Jackson, the Eddy Paper Corporation, Chicago.

At the noon luncheon the principal address was made by C. L. Holman, Wilson Brothers, president of The Chicago Association of Credit Men.

At the afternoon session, Victor C. Eggerding, Gaylord Container Corporation, St. Louis, conducted a question and answer period based on the 1945 credit Manual published by the National Association of Credit Men.

"General Business Conditions as I See Them" was discussed by F. C. Heath, Sealright Co., Inc., Fulton, N. Y.

E. Wylie, Container Corporation of America, Chicago, presented a "Chart of Business Booms and Depressions" and accompanied it with a talk.

# 3 New York "C" Men Promoted by Bank

New York: Promotions recently announced by Central Hanover Bank and Trust Company included the following officers who are members of the New York Credit Men's Association:

F. B. Whitlock, of the 34th Street Office, was elected a Vice President. Mr. Whitlock is a nephew of Silas Whitlock, Past President of the National Association of Credit Men and a member of the 475 Club.

John C. Higbee, 35th Street Office, who has served in the Band Credit Department and on the Branch Loan Committee, was made Vice President.

Thomas C. Meeks, also at the 35th Street Office, was elected Vice President and John R. Osborne was appointed Assistant Secretary.

Louisville: National President Robert L. Simpson and National Executive Manager Henry H. Heimann will be the speakers at the March 13 membership meeting of the Louisville Credit Men's Association. Mr. Heimann also will make an address on Monday evening, March 12, before the Lexington Association of Credit Men and will then meet National President Robert L. Simpson here for the big dinner meeting.

# Cleveland Offers G.I.'s Course in Business Management Plans

Cleveland: The National Institute of Credit courses at Cleveland College started the spring term on February 12. Courses offered were Credit and Collection Problems, Business Correspondence, Principles of Accounting, Beginners' Principles of Accounting, Economic Principles and Problems, Problems of Marketing, Business Law and Public Speaking. Another course designed especially for returning service men and others who will seek to establish themselves in some commercial enterprise deals with the organization and operation of a small business. Classes will be held weekly and will be under the direction of Professor Kenneth Lawyer who has secured the aid of business executives to assist in conducting this new venture. The courses are backed especially by the Credit Practices & Policies Committee of the Cleveland Association.

# Lincoln Is Subject of Bridgeport Talk

Bridgeport: The Bridgeport Association held its regular monthly meeting on Wednesday, February 14, at the Stratfield Hotel. Robert B. Davis, Vice-President, Raybestos-Manhattan, Incorporated, and General Manager, Raybestos Division, gave a splendid talk on "Abe Lincoln—A study in Human Relations."

Chattanooga: Corbin Woodward, Assistant Treasurer and Credit Manager of the Chattanooga Medicine Company, died early in February at his home in Chattanooga. Mr. Woodward was elected a member of the National Board of Directors of NACM at the Omaha Convention. He had been associated with the Chattanooga Association for a number of years.

# 90 New Members of C.A.C.M. Are Given "Initiation"

Chicago: New members of The Chicago Association of Credit Men numbering more than 90 attended a dinner in their honor at the Merchants and Manufacturers Club in the Merchandise Mart, Tuesday evening, February 6.

R. L. Seaman, the Florsheim Shoe Company, chairman of the membership committee, presided. H. H. Faulstich, the First National Bank of Chicago, Vice President of the Association, delivered a short address stressing the importance of credits in a business organization.

The guests then enjoyed the visual presentation of credit Association activities prepared under the direction of the membership committee. The projection on the screen of the visual illustrations in color was accompanied by a narrative presentation by Carl I. Johnson, vice president of the Continental-Illinois National Bank and Trust Company.

A colored motion picture, "The Amazing Amazon" was also enjoyed.

# Chicago "C" Women Visit Women Vets at Hines Hospital

Chicago: The War Activities Committee of the Credit Women's Club visited the women's wards of the Hines Veterans' Hospital again this year for a Valentine's party. Our old friends always receive us with glad smiles and newer patients welcome our visits too. Leather writing portfolios, stationery, chocolate candy, books and valentines were left as a reminder of our visit. Colorful dresser, table and tray scarves presented last year were so well liked that we duplicated that donation to the hospital this year. They add color and cheer stacked so nicely on the shelves of the linen-room and brighten the patients' rooms when used. The drawing for bed-jackets made an interesting close to an enjoyable visit. We appreciate the co-operation received from the Recreation Chairman of the hospital and the opportunity to meet these fine women who are hospitalized after having served our country as Nurses, WACS, WAVES and Marines.

# Positions Open

Credit Manager—Aggressive Pharmaceutical Manufacturing Company desires competent credit man to handle credits, claims, and adjustments. Post War Future, good opportunity for advancement. WMC rules must apply.

## Credit Should Be Liquid to Meet all Conditions

By A CREDIT MANAGER

who wishes to be called Anonymous

**C**redit is fluid and reacts to business conditions as lubricating oil does to changing weather temperatures. To maintain proper control of the avenue of credit does not necessarily require a rigid system which does not allow for long range thinking. To be conservative in business decisions does not ipso facto require that the answer be negative or that the proposed debtor be of such a standing as to overpower the credit grantors antipathy to a positive decision.

I do not contend that to decide judiciously whether or not to extend a line of credit requires second sight but I am convinced that horse or common sense is very necessary.

Excluding isolated cases of obvious fraud, a creditor is in business to make a success of that business. He has a bigger stake in the success of his enterprise than his creditors. Accordingly, if the other factors which control business cycles are favorable and the owner is qualified as a reasonable risk the percentage is in favor of the creditor.

Dealing in a commodity such as credit presents a different problem in a rural community than it does in urban centers. I know this although I have never had credit dealings in a rural community. The fundamental rules apply in each location but common sense or (if you wish a more glamorous term) sociological sense must direct the play to a varying degree as one changes from either market place.

We know that under normal conditions all lines of business are not prosperous at the same time. Men we meet to talk over conditions are either griping or bragging about the state of their business. Very seldom do we have a lull in certain lines of business that has not been or could not have been anticipated by a long range analyst. When, therefore, I refer to credit as fluid I assume that "horse" sense dictates, in advance of a cessation of activity in a cer-

tain line of business, a contraction in credit granting to such a business and conversely an expansion when the future of such a line appears favorable.

## U.S. Court of Appeals Makes New Ruling on Purchases by Trustee

(Continued from Page 31)

sustained the trustee's contention in an opinion in which it stated that 'It is undoubtedly true that in a number of instances courts have refused to extend this doctrine to private corporations,' citing a line of decisions which hold that the six months' rule is applicable only to railroads, telegraph companies and other public utilities, but not to corporations engaged in business which is not charged with a public interest."

The court continued:

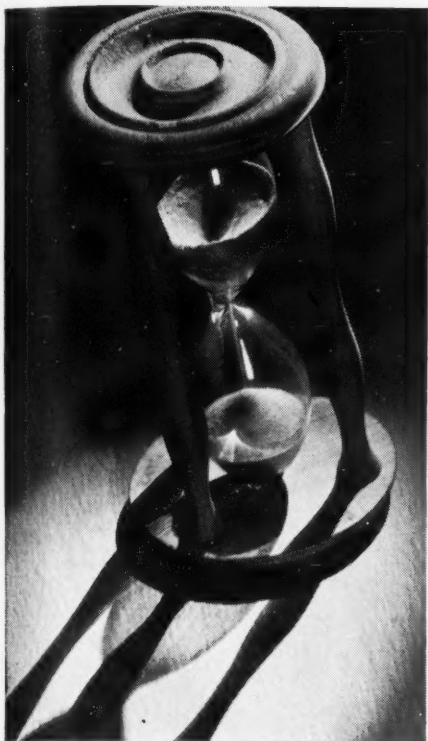
"The doctrine may nevertheless have a larger basis. Just as it is recognized that, after insolvency, the expenses of continued operation of a business may be necessary to preserve its value for the secured creditors themselves, and for that reason that the receiver's creditors have priority, so it may be before insolvency. To take the case at bar, upon the continued operation of a hotel its good-will depends; let it once shut down, and it will lose much of its value. Unless the tradesmen with whom it must deal can be protected, as its credit slowly wanes before final insolvency, it must begin to trade upon a cash basis, which may be difficult, or even impossible. Some priority to them may be as essential to the preservation of the business during that period as it is later. While the interests of the public were no doubt the paramount consideration in the origin of the rule, the interests of the lienors themselves may make equally imperative some protection to supply creditors. \* \* \* And this is a particularly apt consideration in a reorganization, when the debtor is not to be liquidated, and when the very purpose of the action is to con-

tinue the existing business in the interest of the secured creditors—and, as here, of them alone. It cannot be that a court is helpless to avail itself of that very means of fulfilling the purpose of the action, before the debtor has been taken over, which concededly it is free to employ thereafter. We hold therefore that so far as the supply creditors furnished their goods or their services within a short period of the receivership—six months is the limit—and so far as these were necessary to keep the hotel open, they were proper preferred claims.

"The 'six months' rule' is expressly recognized in Section 77 of the Bankruptcy Act dealing with railroad reorganizations, but is not specifically incorporated in Chapter X. The basis of the rule is, as pointed out by the Circuit Court of Appeals, that the continued operation of certain types of businesses, such as public utilities, is essential for the protection of the public, and that persons who contribute supplies essential to maintain such enterprises as going concerns immediately prior to receivership are entitled to priority over all other claims against the enterprise including lien claims.

"In *Dudley v. Mealey*, the Circuit Court has now extended the doctrine to apply to a hotel on the ground that the continued operation of the hotel is essential to the conservation of its goodwill and that, were the hotel to shut down because of its inability to obtain credit, the interests of lienholders would be adversely affected.

"It is not to be assumed from this information that the rule will be applied generally to all types of businesses which are reorganized under Chapter X. The court has been careful to limit the application of the rule to an enterprise of such nature that its continued operation is essential for the protection of lienholders. In any case in which this can be shown, however, the six months' rule would be applicable if the doctrine enunciated by the Circuit Court in this decision becomes the established law. The decision is so important and revolutionary that it would seem probable that an appeal will be taken to the United States Supreme Court."



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F. Cyril James, Vice Chancellor, McGill University, Montreal, Canada.

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